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All enquiries regarding membership should be addressed to:

Dr Ruth Mattimoe
DCU Business School
Glasnevin
Dublin 9
Ireland
Email: ruth.mattimoe@dcu.ie

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Ray Donnelly
Accounting & Finance
Business School
University College Cork
Western Road
Cork, Ireland
Email: rdonnelly@ucc.ie
Telephone: + 353 (0) 21 4902556

Noel Hyndman
School of Management
Queen’s University Belfast
Belfast BT7 1NN
Northern Ireland
United Kingdom
Email: n.hyndman@qub.ac.uk

Ciarán Ó hÓgartaigh
UCD School of Business
University College Dublin
Belfield
Dublin
Republic of Ireland
Email: ciaran.ohogartaigh@ucd.ie

Notes for Contributors are contained on pages 85–86.

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THE REVERSAL OF IMPAIRMENTS OF PPE: A TEST OF FAIR VALUE ACCOUNTING

Domenico Campa
International University of Monaco, INSEEC Research Group
and
TongYu Cao and Ray Donnelly
University College Cork

ABSTRACT

This study examines if the reversal of impairments allowed by IAS 36 as undertaken by UK-quoted companies can be justified as unbiased adjustments to reflect the fair value of the property, plant and equipment assets to which they pertain. We test if the reversals are reflected in the change in stock market prices in an indirect test. We also employ a direct test to establish if the reversals are positively related to changes in subsequent operating performance. Our results suggest that the reversals of impairments are positively related to changes in future performance. Only those reversals that are undertaken when the pre-reversal net income is not negative are reflected in stock market returns. This is somewhat justified by the finding of a differential relation between the ability of the reversals to predict future operating performance and whether the firm is profitable pre-reversal or not. We argue that the results based on the direct test are more convincing and that our results support the decision of the IASB to allow the reversal of impairments.

INTRODUCTION

Fair value accounting allows managers to report relevant and timely information: it also provides them with the scope to obfuscate financial performance and position. This paper investigates which of the above approaches managers of firms quoted

on the UK stock market choose to adopt. In particular, it tests if the reversal of impairments undertaken under the auspices of IAS 36 (International Accounting Standards) is used to faithfully represent the value of non-current assets or if they are used merely to boost current earnings.

The approach adopted here is based on that of Bernard (1993) and Aboody, Barth and Kasznik (1999), where changes in an asset's true value are assessed either indirectly with reference to changes in current stock price (return) or directly with reference to changes in future operating performance. If the reversal of the impairment reflects a change in the economic value of an asset, it will be positively associated with changes in current stock market performance and future operating performance. If reporting incentives underlie the decision to reverse the impairment, we should not observe these relations. Thus we examine if the reversal of property, plant and equipment (PPE) impairments of UK-quoted companies are associated with changes in stock price and changes in operating performance in the manner expected following a real increase in asset value. This approach is entirely consistent with the definition of an asset in the conceptual framework as 'a resource … from which future economic benefits are expected to flow'.

There is a sharp contrast between the approaches taken by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) to impaired assets that subsequently recover some, or all, of their value. The former views the impaired assets as being on a new cost basis and does not allow upward revaluations. The latter allows upward revaluations that not only increase the carrying amount of the asset to its fair value in the balance sheet but that also increase current income by the amount of the reversal of the impairment charge. From 2005, all companies whose shares are listed in the EU are required to prepare their consolidated financial statements in accordance with IASs and International Financial Reporting Standards (IFRSs) (which permit the reversal of impairment losses). The current study can be viewed as an effort to provide evidence to contribute to the debate on whether the FASB or the IASB has the correct approach in contexts where an impaired, non-financial, non-current asset's value may have recovered.

We use a sample of United Kingdom (UK) companies that have reversed their impairment of PPE over the period 2006–2011 and test if the reversal of their impairments is justified by their current stock return and future operating performance. We find strong support for unbiased reversal of impairments on the basis of the direct tests based on future operating performance. Our indirect tests based on stock return are not as clearcut but provide evidence that for firms with pre-reversal profits stock returns are positively related to the reversal of an impairment charge. Additional analyses reconcile the differences between our direct and indirect test results.

In the next section we review the pertinent literature. The third section outlines the hypotheses development and research methods. This is followed by a brief description of our sample and data. The penultimate section outlines our empirical results and the final section summarises the paper and concludes.

LITERATURE REVIEW

The issue of impairment reversal of non-current assets is part of the debate pertaining to the advantages and disadvantages of fair value accounting relative to historical cost accounting. Fair value accounting is considered a better measurement for financial reporting because it reports the more up-to-date value of assets. The reporting of 'fairer' values of non-current assets helps investors make informed economic decisions in a timelier manner (Herrmann, Saudagaran and Thomas, 2006). However, historical cost valuation is more 'objective' than fair value valuation because the latter may be subject to much judgement and affords management the opportunity to manage earnings. Research has shown that fair values of financial assets and revalued investments are significantly associated with share prices (Barth, 1994; Nelson, 1996; Landsman, 1986; Barth and Clinch, 1998). Fair values of PPE are more difficult to calculate and more susceptible to manipulation than those of financial assets, meaning the findings regarding financial assets may not be applicable to fixed assets such as PPE. Nonetheless, Barth and Clinch (1998) show that revalued PPE is related to stock prices. Aboody et al. (1999) report that upward revaluations of fixed assets by UK firms predict future firm performance. They find that large downward revaluations are significantly and positively related to stock returns, but they also find that managerial incentives affect the usefulness of revaluations as the relationship between revaluations and firm performance is weaker for high debt-to-equity firms. Easton, Eddey and Harris (1993) report similar effects for revaluations in Australia. Although impairment reversals also concern an asset's 'revaluation', they have a direct and positive impact on net income. It is therefore important to separately examine reversals to establish if they reflect changes in the economic fundamentals of the firm or if incentives for earnings management motivate them.

There is a considerable amount of literature exploring the effect of impairments of non-current assets, but research on their subsequent reversals of impairments is in short supply. The most important issue for investors is whether or not discretionary impairment losses/asset write-downs, as well as impairment reversals, are closely related to economic factors and are useful for economic decision-making.

Some studies have found evidence that discretionary impairment losses/asset write-downs provide useful information for investors (for example, Henry, 2009; Lapointe-Antunes, Cormier and Magnan, 2009; Li, Shroff, Venkataraman and Zhang, 2011).

However, there is also criticism of the fair value-based, asset impairment-related accounting standards. Titard and Pariser (1996) argue that the international accounting standards based on fair value accounting give managers considerable discretion as to the timing and the value of write-downs of impaired assets. When managers are provided with choices in determining the value of assets, expenses and the profits of their firms, the risk of aggressive accounting being employed is increased (Healy and Wahlen, 1999). There is extensive evidence of managers using impairment decisions opportunistically. Riedl (2004) and Sevin and Schroeder (2005), as well as Jordan and Clark (2004), document the use of impairment charges in big bath accounting. More recently, Bens, Heltzer and Segal (2011) find that the move to fair value accounting (Statement of Financial Accounting Standards (SFAS) No. 142) has somewhat reduced the information content of goodwill writeoffs.

Upward revaluations on the basis of fair value are likely to be viewed with even more scepticism than downward revaluations; that is, impairments are likely to be trusted more than their reversals, given the incentives faced by management. Moehrle (2002) examines the reversal of restructuring charges using a sample of 121 reversals recorded between 1990 and 1999. He finds that managers are more likely to record reversals when pre-reversal earnings are below analysts' forecasts, when the firm experiences a pre-reversal loss or when pre-reversal earnings are below prior-year levels so as to avoid earnings declines. These results are consistent with firms using the restructuring accrual reversal to manage earnings upward.

Research that specifically pertains to the reversal of impairments of non-current assets is mostly undertaken in Asia although impairment reversals are practised in many jurisdictions. This is contradicted by Chen, Wang and Zhao (2009), who find that reporting incentives as a proxy for earnings management dominate managerial decision-making among publicly listed companies in China. A more recent study by Zhang, Lu and Ye (2010) also provides evidence of the opportunistic impairment reversal reporting by firms listed on Chinese stock exchanges.

Duh, Lee and Lin (2009) specifically examine the reversal of impairments under an IAS 36-based accounting standard in Taiwan. They report that firms with large impairment balances reverse their impairments when their pre-reversal earnings are lower than prior-year earnings. They also provide evidence that there is no stock market reaction to the reversal of impairments and infer that the market in Taiwan sees through the earnings management behaviour. They conclude that their results provide a rationale for the FASB's prohibition of the reversal of impairment losses.

It should be pointed out that if a reversal is not done on a timely basis it will be anticipated by the price performance of the company. Accordingly, there will be no contemporaneous price reaction to the delayed reversal of an impairment charge. Also, as pointed out by Aboody et al. (1999), stock return can be influenced by a firm's financing and other decisions, and thus only provides indirect evidence of future operating performance and hence a real change in asset value. Also in an Asian context, Shaari, Cao and Donnelly (2012) provide only partial support for findings by Duh et al. (2009). This paper reports that Malaysian companies on average reverse impairments when the true value of their assets recover. However, Shaari et al. (2012) also find evidence that a significant minority of firms in their sample that reverse impairments do so in order to manage earnings.

As well as being open to alternative interpretation, the results from Asian economies may not be applicable in Western economies where stronger corporate governance is likely to restrict opportunities for earnings management. Indeed, Ball (2006) makes specific mention of IAS 36 when he points out the likely variation in the institutional settings across IFRS-adopting countries. Trottier (2013) finds that Canadian managers are more likely to undertake a justifiable impairment if it can be reversed. This suggests that impairment charges may be more accurate if reversal is allowed. Trottier also reports that participants in that study reckon that a manager will be less likely to make an impairment charge if he has a bonus plan and cannot reverse the impairment. Therefore, it is worth reexamining the hypothesis/claim, e.g. Duh et al. (2009), that there is a sound rationale for the prohibition of impairment reversals. We extend the analysis of Duh et al. (2009) by using a more

direct approach to determining if the reversal of an impairment charge reflects a real change in asset values. In particular, we employ the method suggested by Bernard (1993) and employed by Aboody et al. (1999) to establish if the reversals are positively related to changes in future operating performance. We also examine the relationship between reversals and stock return.

HYPOTHESIS DEVELOPMENT AND RESEARCH METHODS

If an impairment reversal truly represents a contemporaneous increase in the value of an asset, it will be confirmed by other indications of real changes in valuation. One indication of an increase in the value of a company's assets is an increase in its share price. Accordingly, our first hypothesis in alternative form is:

H1: Reversals are positively associated with stock returns.

Following revaluation studies such as Easton et al. (1993), Barth and Clinch (1998) and Aboody et al. (1999), we use Equation 1 to test H1:

$$R_t = \gamma_0 + \gamma_1 REV'_t + \gamma_2(NI_t - REV'_t) + u_t \qquad (1)$$

Firm subscripts are suppressed to facilitate presentation.
$\mathbf{R_t}$ = stock market returns beginning eight months before the financial year-end and ending four months after the financial year-end.
$\mathbf{REV'_t}$ = the reversal amount scaled by market value eight months before the fiscal year-end.
$\mathbf{NI_t - REV'_t}$ = net income before reversal in year *t* scaled by market value of equity eight months before fiscal year-end *t*.

H1 is tested with reference to the significance of γ_1. Specifically if γ_1 is significantly greater than 0 we can confirm that stock return corroborates the reversal of the impairment charge.

An increase in stock return arises because the market perceives that the future earnings and cash flows from the company's assets are likely to be greater than previously predicted. The return on a company's stock depends on factors other than future operating income such as the cost of capital, general market movements and technological changes. It also depends on whether the reversal is done on a timely basis and is not anticipated by the market. In effect, it is an indirect indication of value. Bernard (1993) points out that a more direct method for assessing if an asset's value has truly increased is to examine if the reversal of an impairment charge is associated with a positive change in future operating cash flows or income. This method was adopted by Aboody et al. (1999) to test for the reliability of revaluations of fixed assets in the UK. Accordingly, our second hypothesis, in alternative form, is:

H2: Reversals of impairments are positively associated with changes in future operating cash flows and income.

Following Aboody et al. (1999), we estimate Equations 2 and 2a test H2. In addition to the revaluation, these equations include a historical cost estimate of an increase in asset value, and capital expenditure incurred during the year, as well

as current operating performance as independent variables. If impairments are reversed for fundamental economic reasons, we expect that β_1 will be significantly positive. We also test if β_1 is equal to β_3 to establish if the fair value-based increase in asset value is related to future operating performance in the same manner as the historical cost increase in asset value. Equations 2b and 2c are versions of Equations 2 and 2a respectively, augmented to include additional control variables.

$$\Delta CFO_{t+\tau} = \alpha + \beta_1 REV_t + \beta_2 \Delta CFO_t + \beta_3 \, CAPEX_t + \varepsilon_t \quad (2)$$

$$\Delta OPIN^*_{t+\tau} = \alpha + \beta_1 REV_t + \beta_2 \Delta OPIN_t + \beta_3 \, CAPEX_t + \varepsilon_t \quad (2a)$$

$$\Delta CFO_{t+\tau} = \alpha + \beta_1 REV_t + \beta_2 \Delta CFO_t + \beta_3 \Delta WC_t + \beta_4 SIZE_t + \beta_5 MTB_t + \beta_6 \, CAPEX_t + \varepsilon_t \quad (2b)$$

$$\Delta OPIN^*_{t+\tau} = \alpha + \beta_1 REV_t + \beta_2 \Delta OPIN_t + \beta_3 SIZE_t + \beta_4 MTB_t + \beta_5 \, CAPEX_t + \varepsilon_t \quad (2c)$$

$\Delta CFO_{t+\tau}$ = the change in net cash flow from operations from year t to $t+\tau$.
ΔCFO_t = the change in net cash flow from operations from year $t-1$ to year t.
$\Delta OPIN^*_{t+\tau}$ = operating income before depreciation and amortisation expenses, reversal amount and abnormal working capital accruals (AWCA) over the period t to $t+\tau$; $\tau = 1$ or 2.
$CAPEX_t$ = capital expenditure in year t.
REV_t = the reversal amount for year t.
ΔWC_t = change in working capital from year $t-1$ to year t.
$SIZE_t$ = the natural log of total assets at end of year t.
MTB_t = the market to book value ratio at the beginning of year t.

All variables, except SIZE and MTB, are scaled by total assets at the end of fiscal year $t-1$.

SAMPLE AND DATA

The study examines the reversals of impairments made under IAS 36. Since IFRS became effective in the UK for financial statements beginning on 1 January 2005, we chose a sample period from 2006 to 2011 to facilitate the construction of our change variables. We require operating performance measures after the year of the reversal, and the most recent year for which financial data was available when we collected the data was 2012. Thus we used reversals made in financial years up until 2011. We downloaded details of reversals of impairments of PPE for all companies on the Datastream® lists UKQI and DeadUK. We found 228 reversals of impairments over the period 2006–2011. We deleted all companies with standard industrial classification (SIC) codes in the range 6400–6999. These are mainly financial services companies whose accounts are not prepared on the same basis as other companies. This reduced the sample size to 184. Since we are examining the reversal of impairments made under the auspices of IAS 36, we removed all companies that do not prepare their accounts using IFRS from the sample. It should be noted that alternative investment market (AIM) companies did not have to adopt IFRS until

1 January 2007. Consequently, the vast majority of deletions from our sample come from 2005 and 2006. Finally, 27 of the remaining companies did not have the requisite data to estimate our models, leaving us with 103 reversals.

Since impairments may be driven by industry effects, we compare the industrial classification of our sample with that of the Datastream List UKQI, which contains all active UK companies for which Datastream holds accounts data. This comparison is outlined in Table 1 and shows that Oil & Gas and Basic Materials are over-represented in our reversal sample and consequently all other industries are under-represented. Further investigation reveals that most of our Basic Industries reversal companies are mining companies. Thus we conclude that the extractive industry is over-represented amongst reversal companies. We will return to this proclivity in our sample at a later stage when interpreting our results.

TABLE 1: INDUSTRIAL CLASSIFICATION

	Sample		UK Industry	
	No.	**%**	**No.**	**%**
Oil and Gas	13	12.62	126	10.91
Basic Materials	31	26.50	166	14.37
Industrials	17	14.53	312	27.01
Consumer Goods	8	6.84	99	8.57
Health Care	0	0	77	6.67
Consumer Services	2	1.71	198	17.14
Telecommunications	18	17.48	19	1.65
Utilities	4	3.42	22	1.90
Technology	10	8.55	136	11.77
Total	*103*	*100.00*	*1155*	*100.00*

RESULTS

Preliminary analysis of the data reveals some extreme outliers and indications that some variables have extremely skewed distributions. For example, cash flow from operations scaled by total assets in the year subsequent to the reversals has a maximum value of over 154, which makes no economic sense. Clearly, total assets of the firm in question are reduced to close to zero to give such a ratio. An outlier deletion program was accordingly devised. We removed up to four outliers greater than 2.5 standard deviations from the mean from the variable. The observations were deleted uniformly from both extremes of the distribution if the variable's distribution was symmetric. If the distribution was skewed positively or negatively, the outliers were deleted as appropriate. Descriptive statistics for the data are outlined in Table 2. These statistics were calculated after up to four extreme outliers were deleted from each variable. It is worth noting that the equity market value of companies in the sample extends from £180,000 to almost £180 billion. This may account for some of the outliers in variables that are scaled by the market value of equity.

TABLE 2: DESCRIPTIVE STATISTICS

Variable	Obs.	Mean	Stnd. Dev.	Min.	Max.
REV'_t	99	0.123	0.600	0.000	4.155
R_t	99	0.167	0.428	-0.475	1.981
$NI_t–REV'_t$	99	0.06	0.11	-0.25	0.55
EXT	103	0.33	0.47	0	1
REV_t	99	0.008	0.020	0.000	3.123
ΔCFO_t	99	0.021	0.076	-0.109	0.374
ΔCFO_{t+1}	91	0.012	0.071	-0.130	0.227
ΔCFO_{t+2}	67	0.041	0.103	-0.100	0.324
$\Delta OPIN_t$	99	0.031	0.061	-0.123	0.338
$\Delta OPIN_{t+1}$	91	0.028	0.070	-0.088	0.348
$\Delta OPIN_{t+2}$	67	0.032	0.088	-0.201	0.307
MTB_t	99	1.956	1.640	0.001	7.15
$SIZE_t$	96	13.850	2.513	4.357	17.811
CAPEX	99	0.068	0.057	0	0.268
ΔWC	99	0.019	0.112	-0.261	0.386

R_t = stock market returns beginning eight months before the financial year-end and ending four months after the financial year-end.
REV'_t = the reversal amount scaled by market value 8 months before the fiscal year-end.
$NI_t – REV'_t$ = net income before reversal in year *t* scaled by the market value of equity 8 months before fiscal year-end t.
REV_t = the reversal amount scaled by total assets at end of year *t*.
EXT is a dummy variable which takes the value of 1 if the firm has an ICB sector code of 0530 (Oil & Gas), 1750 (Industrial Metals and Mining) or 1770 (Mining) and zero otherwise.
$CFO_{t+\tau}$ = net cash flow from operations in year $t+\tau$; *t* scaled by market value at the end of year $t–1$.
$\Delta CFO_{t+\tau}$ = the change in net cash flow from operations from year t to year $t+\tau$, $CFO_{t+\tau} – CFO_t$
$OPIN^*_{t+\tau}$ = operating income before depreciation and amortisation expenses, reversal amount and AWCA in year $t+1$ divided by market value at end of year $t–1$.
$CAPEX_t$ is capital expenditure in year *t*.
$\Delta OPIN^*_{t+\tau}$ = the change in operating income before depreciation and amortisation expenses, reversal amount from year *t* to year $t+1$.
CFO_t = net cash flow from operations in year *t*.
ΔCFO_t = the change in net cash flow from operations from year $t–1$ to year *t*.
$OPIN_t$ = operating income before reversals in year *t* divided by total assets at end of year *t*.
$\Delta OPIN_t$ = the change in operating income before reversals from year $t–1$ to year *t*.
$SIZE_t$ = the natural log of sales at end of year $t–1$.
MTB_t = the market value to book value ratio at the end of year $t–1$.
ΔWC_t = change in working capital from year $t–1$ to year *t*.
ΔCFO_{t+2} and $\Delta OPIN_{t+2}$ have a reduced number of observations since reversals with two years of subsequent performance are only available up until 2010: data for 2013 were not available when the data were collected.

A preliminary correlation analysis shows that *REV*, the reversal scaled by opening total assets, is significantly positively correlated with the change in operating income over the subsequent 12- and 24-month periods (see Table 3). It is also positively correlated with ICB, a dummy variable that takes the value of 1 for firms in the extractive industries and zero otherwise. Stock market return is significantly positively related

TABLE 3: CORRELATION ANALYSIS

	REV	REV’	R_t	$(NI_t\text{-}REV'_t)$	EXT	$\Delta OPIN_t$	$\Delta OPIN_{t+1}$	$\Delta OPIN_{t+2}$	ΔCFO_t	ΔCFO_{t+1}	ΔCFO_{t+2}	$SIZE_t$	CAPEX
REV’	0.17												
Rt	-0.04	-0.01											
$(NI_t\text{-}REV'_t)$	-0.03	0.15	0.03										
EXT	0.35*	0.06	0.21*	0.12									
$\Delta OPIN_t$	0.15	0.02	0.20	0.34*	0.37*								
$\Delta OPIN_{t+1}$	0.32*	-0.05	0.13	0.23*	0.30*	0.04							
$\Delta OPIN_{t+2}$	0.03	-0.10	-0.06	0.20	0.11	0.13	0.63*						
ΔCFO_t	0.09	-0.06	0.36*	0.08	0.34*	0.64*	0.00	-0.05					
ΔCFO_{t+1}	0.34*	-0.09	-0.12	0.19	0.20	0.04	0.57*	0.47*	-0.27*				
ΔCFO_{t+2}	0.31*	-0.08	0.18	0.20	0.28*	0.20	0.64*	0.67*	0.07	0.67*			
$SIZE_t$	-0.36*	0.14	-0.04	0.23*	-0.22*	0.03	-0.23*	-0.25*	-0.08	-0.27*	-0.28*		
CAPEX	0.06	-0.01	-0.09	0.36*	0.48*	0.31*	0.23*	-0.02	0.14	0.22*	0.34*	0.12	
MTB	-0.07	-0.24*	0.26*	0.40*	-0.07	0.02	-0.03	0.04	0.15	0.05	0.13	-0.03	0.12

* = significant at the 5% level. Variables are as defined in Table 2.

to the change in cash flows from operations in the current year and MTB. It is a little surprising that it is not related to future operating performance. The firms in the extractive industries are of smaller size, have greater current and future profitability and have larger current stock returns than the other firms in the sample. They also display evidence of incurring higher current capital expenditure. As expected, the future operating performance measures are highly correlated with each other. Capital expenditure is positively related to future operating performance. This is to be expected and supports our decision to control for CAPEX in assessing the relationship between impairment reversals and future operating performance.

We next estimate Equation 1 to assess H1. The results of this estimation are outlined in Table 4. Neither pre-reversal net income nor the reversal is significantly related to returns. All of the explanatory power of the regression comes from the year dummies, which are not tabulated. It is well known that the explanatory power of earnings for returns comes from their ability to enhance predictions of future earnings. Collins, Pincus and Xie (1999) point out that negative earnings are not particular useful for this purpose so explain much less of returns than profits.

TABLE 4

Model 1: $Return_t = \gamma_0 + \gamma_1 REV'_t + \gamma_2(NI_t - REV'_t) + u_t$

Model 2: $Return_t = \gamma_0 + \gamma_1 REV'_t + \gamma_2(REV'_t)*LOSS_t + \beta_3(NI_t - REV'_t) + \beta_3(NI_t - REV'_t)*LOSS_t + u_t$

Model 3: $Return_t = \gamma_0 + \gamma_1 REV'_t + \gamma_2(REV'_t)*EXT + \beta_3(NI_t - REV'_t) + \beta_3(NI_t - REV'_t)*EXT + u_t$

	Model 1	Model 2	Model 3
Constant	-0.06	-0.4	-0.07
	(0.12)	(0.22)	(0.10)
REV'_t	-0.05	0.17	-0.41
	(0.13)	(0.00)	(0.14)
$(NI_t - REV'_t)$	0.00	-0.007	0.21
	(0.82)	(0.02)	(0.12)
REV'_t*LOSS_t		-0.21	
		(0.01)	
$(NI_t - REV'_t)*LOSS_t$		0.03	
		(0.32)	
REV'_t*EXT			0.23
			(0.92)
$(NI_t - REV'_t)*EXT$			-0.25
			(0.03)
R^2	17.9%	19.9%	20.3%

Time-varying intercepts are not reported.

P-values based on robust standard errors are in parentheses.

R_t = stock market returns beginning 8 months before the financial year-end and ending 4 months after the financial year-end.

REV'_t = the reversal amount scaled by market value 8 months before the fiscal year-end.

$NI_t - REV'_t$ = net income before reversal in year *t* scaled by market value of equity 8 months before fiscal year-end *t*.

$LOSS_t$ is a dummy variable that takes the value of 1 if pre-reversal net income (NI-REV) is negative and zero otherwise.

EXT is a dummy variable which takes the value of 1 if the firm has an ICB sector code of 0530 (Oil & Gas), 1750 (Industrial Metals and Mining) or 1770 (Mining) and zero otherwise.

Accordingly, we bifurcate our sample into firms whose pre-reversal net income is positive and those whose $NI_t – REV'_t$ is negative. The column labelled model 2 in Table 4 reports results from estimating this model. We note that REV'_t is now positively related to returns but only for those companies whose pre-reversal net income is positive. In particular, the average REV'_t is 0.09 when $NI_t – REV'_t$ is positive so an average-sized reveral is associated with a stock return increase of 0.09 X 0.17 = 1.5%. When $NI_t – REV'_t$ is negative, the relationship between reversals and returns is significantly different from that when pre-reversal net income is positive: here a reversal is associated with an average stock decline of about 1.2 per cent.[1] It appears that the market values reversals of impairments only when pre-reversal net incomes are positive. This may be explained by the valuation reason as outlined in Collins et al. (1999), or perhaps the market suspects that the reversal is undertaken for opportunistic reasons when pre-reversal net income is negative.

We noted earlier that the sample contains a disproportionate number of firms in the extractive industries. An alternative explanation for the poor performance of our simple returns-earnings model may be that the earnings of firms in these industries are not perceived as informative for share prices and returns as those in other industries. Thus we use a dummy variable, EXT, to separate our sample into firms in the extractive industries and others. The results of the regression pertaining to this dichotomisation of the sample are in the final column of Table 4: again, year dummies are not tabulated. These results show that the relation between earning and returns for firms in the extractive industry is significantly different from the relation between earnings and return in other industries. However, there is no apparent difference in how the market perceives the reversals of impairments for the extractive industries vis-à-vis other sectors.

As discussed above, the second, and more direct, method of assessing the veracity of the reversal of an impairment is to examine the relationship between the reversal and changes in future operating performance. We use two measures of operating performance: the change in operating cash flows and the change in operating income. If the increase in the asset value associated with an impairment reversal is justified then it should be positively associated with a change in both measures of operating performance.

We estimate Equations 2 and 2c where the change in operating cash flows over the first and second financial years after the reversal is predicted to be determined by current operating cash flows, the reversal and any concurrent capital expenditure that the firm might make (all variables scaled by opening total assets). Table 5 outlines the results pertaining to changes in subsequent operating cash flows. Columns 2, 3 and 4 show that REV_t is significantly positively related to the change in operating cash flows for one and two years subsequent to the reversal. The coefficients indicate that an average reversal scaled by beginning total assets is associated with an increase of about 9 per cent in ΔCFO over the subsequent year: 0.008*1.14 = 0.0912. *CAPEX* is also positively related to changes in subsequent operating cash flows as predicted. Additional control variables are used in columns 3 and 5. The results for *CAPEX* are unaffected by their inclusion. However, REV_t becomes insignificant when ΔCFO_{t+2} is the dependent variable. None of the control variables is significantly related to changes in future operating cash flows at the 5 per cent level.

TABLE 5

$\Delta CFO_{t+\tau} = \alpha + \beta_1 REV_t + \beta_2 \Delta CFO_t + \beta_3\ CAPEX_t + \varepsilon_t$
$\Delta CFO_{t+\tau} = \alpha + \beta_1 REV_t + \beta_2 \Delta CFO_t + \beta_3 \Delta WC_t + \beta_4 SIZE_t + \beta_5 MTB_t + \beta_6\ CAPEX_t + \varepsilon_t$

Dependent Variable	**ΔCFO_{t+1}**	**ΔCFO_{t+1}**	**ΔCFO_{t+2}**	**ΔCFO_{t+2}**
Constant	-0.01	0.05	-0.02	0.15
	(0.22)	(0.33)	(0.15)	(0.14)
REV_t	1.14	0.95	1.29	0.47
	(0.00)	(0.05)	(0.05)	(0.61)
ΔCFO_t	-0.32	-0.32	0.01	-0.02
	(0.01)	(0.02)	(0.95)	(0.95)
ΔWC_t		-0.05		-0.21
		(0.54)		(0.20)
$SIZE_t$		-0.005		-0.01
		(0.15)		(0.06)
MTB_t		-0.003		0.002
		(0.46)		(0.78)
$CAPEX_t$	0.31	0.33	0.80	1.08
	(0.03)	(0.03)	(0.00)	(0.01)
F-STAT	5.11	1.51	0.52	0.21
(p-value)	(0.03)	(0.22)	(0.47)	(0.65)
For Test of REV=CAPEX				
R^2	24.4%	33.9%	22.6%	32.3%

P-values based on robust standard errors are in parentheses.
Equations are estimated with year dummies (not reported in table).
Variables are as defined in Table 2.

Table 6 outlines the results for equivalent equations where $\Delta OPIN^*_{t+1}$ and $\Delta OPIN^*_{t+2}$ are the dependent variables. The coefficient on REV_t is significantly positive in both the basic and extended model when $\Delta \text{OPIN}^*_{t+1}$ is the dependent variable, but it is not significant when $\Delta \text{OPIN}^*_{t+2}$ is the dependent variable. *CAPEX* is significant when $\Delta \text{OPIN}^*_{t+1}$ is the dependent variable, but only at the 7 per cent level.

We note also that the coefficient on *REV* is significantly larger than that on *CAPEX* when one year ahead operating performance, ΔCFO_{t+1} or $\Delta \text{OPIN}^*_{t+1}$, is the dependent variable (see the penultimate row of Tables 5 and 6). There is no significant difference between the coefficients on *REV* and *CAPEX* in all other models. Thus the fair value measure of a change in asset value is at least as useful as the historical cost measure in all cases and more useful in two. Overall, the results outlined in Tables 5 and 6 support the prediction that an impairment reversal is positively related to future operating performance. It compares favourably with the more verifiable increase in asset value, *CAPEX*, as a predictor of changes in operating performance. This finding suggests that such reversals are, on average, reflective of genuine increases in asset values and are not opportunistic.

The results for the direct test do not appear to be entirely consistent with those reported for stock market returns that suggested that the market perceives reversals to be value relevant only when pre-reversal net income is positive. Accordingly, we

TABLE 6

$\Delta OPIN^*_{t+\tau} = \alpha + \beta_1 REV'_t + \beta_2 \Delta OPIN_t + \beta_3 SIZE_t + \beta_4 MTB_t + \beta_6\ CAPEX + \varepsilon_t$

Dependent Variable	ΔOPIN*$_{t+1}$	ΔOPIN*$_{t+1}$	ΔOPIN*$_{t+2}$	ΔOPIN*$_{t+2}$
Constant	0.00	-0.01	0.02	0.08
	(0.60)	(0.85)	(0.26)	(0.51)
REV_t	1.00	1.03	0.03	-0.24
	(0.00)	(0.01)	(0.95)	(0.68)
$\Delta OPIN_t$	-0.06	-0.12	0.22	0.19
	(0.67)	(0.36)	(0.42)	(0.42)
$SIZE_t$		0.00		-0.00
		(0.92)		(0.54)
MTB_t		-0.01		0.002
		(0.19)		(0.72)
$CAPEX_t$	0.22	0.30	0.06	0.17
	(0.12)	(0.07)	(0.84)	(0.51)
F-STAT	5.74	1.94	0.01	0.41
(p-value)	(0.02)	(0.17)	(0.92)	(0.53)
for Test of REV=CAPEX				
R^2	17.2%	24.2%	2.2%	12.7%

P-values based on robust standard errors are in parentheses.
Equations are estimated with year dummies (not reported in table).
Variables are as defined in Table 2.

investigate the relations between reversal and future operating performance, controlling for situations when pre-reversal net income is negative. In particular, we estimate equations of the following form.

$$\Delta CFO_{t+\tau} = \alpha + \beta_1 \Delta CFO_t + \beta_2 REV_t + \beta_3 REV_t{*}LOSS_t + \beta_4\, CAPEX + \varepsilon_t \qquad (3)$$

$LOSS_t$ is a dummy variable that takes the value 1 if pre-reversal net income is negative in year *t*, and zero otherwise.

This equation is estimated for $\tau = 1$ and 2 and equivalent models are estimated with $\Delta OPIN^*_{t+\tau}$ as the dependent variable.

The results from estimating these models are outlined in Table 7. Reversals for firms with pre-reversal profits predict future ΔCFO_{t+1} and ΔCFO_{t+2}: β_2 is significantly positive in columns 2 and 3 of Table 7. The relationship between ΔCFO_{t+1} and reversals is significantly weaker for firms that have a pre-reversal loss because β_3 is significantly negative. However, the relationship between reversals and the change in operating cash flows remains significantly positive: $\beta_2 + \beta_3$ is positive. There is no significant difference in the relationship between REV_t and ΔCFO_{t+2} for loss-making and profitable firms. However, the loss-making firms bring so much noise into the model that $\beta_2 + \beta_3$ is not significantly different from zero; thus the reversals of firms with pre-reversal loss are not related to ΔCFO_{t+2}.

TABLE 7

$\Delta CFO_{t+\tau} = \alpha + \beta_1 \Delta CFO_t + \beta_2 REV_t + \beta_3 REV_t{*}LOSS_t + \beta_4 CAPEX_t + \varepsilon_t$
$\Delta OPIN^*_{t+\tau} = \alpha + \beta_1 \Delta OPIN_t + \beta_2 REV_t + \beta_3 REV_t{*}LOSS_t + \beta_4 CAPEX_t + \varepsilon_t$

Dependent Variable	ΔCFO_{t+1}	ΔCFO_{t+2}	$\Delta OPIN^*_{t+1}$	$\Delta OPIN^*_{t+2}$
Constant	-0.01	-0.02	0.00	0.03
	(0.19)	(0.10)	(0.61)	(0.13)
ΔCFO_t	-0.32	-0.00		
	(0.01)	(0.98)		
$\Delta OPIN_t$			-0.04	0.29
			(0.80)	(0.30)
REV_t	1.68	1.31	0.77	0.20
	(0.00)	(0.05)	(0.08)	(0.66)
$REV_t{*}LOSS_t$	-1.09	4.34	0.45	-7.29
	(0.01)	(0.45)	(0.30)	(0.00)
$CAPEX_t$	0.28	0.80	0.23	-0.01
	(0.04)	(0.00)	(0.12)	(0.98)
$\beta_2 + \beta_3$	0.59	5.65	1.22	-7.09
	(0.00)	(0.33)	(0.00)	(0.00)
R^2	27.5%	23.1%	17.9%	9.4%

P-values based on robust standard errors are in parentheses.
Equations are estimated with year dummies (not reported in table).
Variables are as defined in Table 2.

The results pertaining to $\Delta OPIN^*_{t+\tau}$ are outlined in the final two columns of Table 7. The coefficient on *REV* is significantly positive when $\Delta OPIN^*_{t+1}$ is the dependent variable: a reversal predicts an improvement in the subsequent year's operating performance when pre-reversal earnings are positive. We notice that there is no difference in the relationship between profitable and loss-making firms in the first year subsequent to the reversal: β_3 is insignificant. The significance of $\beta_2 + \beta_3$ confirms that the change in operating income is predicted by the reversals of firms with pre-reversal losses. Reversals are not significantly related to $\Delta OPIN^*_{t+2}$ even for firms with positive pre-reversal net income: β_2 is insignificant. However, reversals for loss-making firms have a significantly different relation to those of profitable firms and their reversals have negative relation with $\Delta OPIN^*_{t+2}$. Our results suggest that in the short term, the reversals of impairment charges for firms with negative pre-reversal earnings predict an improvement in performance but over a longer period they predict a disimprovement in operating performance. A possible explanation for this is that if a company is using reversals to manage earnings upward, it can maintain such earnings management in the short run but not in the longer term.

The results outlined in Table 7 suggest that in some scenarios the reversals of firms that have pre-reversal losses are reliable predictors of improvements in future operating performance whereas in others they are unreliable or even predict disimprovements of performance. The evidence outlined in Table 7 certainly provides some justification for some differences in the stock price reaction to the reversals of profit-makers and loss-makers. However, it is not clear that it fully justifies the

complete discounting of the reversals of firms with pre-reversal losses as outlined in Table 4. It may be that when there is a *prima facie* case for earnings management using reversals, such as incurring a pre-reversal net loss, the market is unable to make any finer distinctions and will discount the reversals of all such firms. Therefore, this may be as much a problem of perception as it is of fact. The difference in the tenor between the results from the stock market tests and operating performance tests is contributed to by the indirect nature of the former. It may also be influenced by a lack of synchronicity in the timing of the reversal and the change in the stock market's perception of the firm's value. In particular, the market for the shares of some stocks may be efficient while that for stocks of other, particularly smaller AIM firms, may not. This may be important since the stock market tests require some degree of market efficiency to be useful.

SUMMARY AND CONCLUSIONS

This paper tests if changes in asset values and increases in net income effected by the reversal of impairment losses on PPE are justified by changes in subsequent operating performance and stock price performance. We find that stock price performance is only related to reversals in a manner that suggests a true increase in value has occurred when pre-reversal earnings are positive. A more direct test of whether an increase in the value of the impaired assets has actually occurred is to examine if the reversal is associated with future operating performance. In these tests we find clear evidence that the reversal of an impairment charge is significantly and positively related to changes in operating cash flows of the financial years subsequent to the reversal. Similar, albeit weaker, evidence is reported for changes in operating income. Additional tests reveal that the relationship between reversals and subsequent operating performance differs between firms with positive pre-reversal net income and those with negative pre-reversal net income in a manner that somewhat justifies the differential stock price reactions to the reversals between these two categories of firms. While reversals reported by profitable firms consistently predict an improvement in future operating performance, reversals reported by loss-making firms are entirely inconsistent. We find evidence that reversals are positively related, unrelated and even negatively related to future firm performance when firms have a pre-reversal loss. This suggests that some firms at least are using reversals to manage earnings upwards.

As anticipated, our direct tests provide clearer evidence that reversals, on average, reflect genuine changes in asset value. While our market and operating performance tests are broadly consistent, there are differences. We attribute some of the differences between our stock market and operating performance models primarily to the former being indirect and the latter being direct tests of the veracity of reversals. The indirect tests are affected by potential nonsynchronicity of the stock reaction to the reversal and the dependence of market performance on a broader set of variables. Further, when pre-reversal net income is negative, the market does not view reversals positively: the operating performance tests suggest that this is justified some but not all of the time. The market seems to be conscious that impairment

reversals made by pre-reversal loss-making firms are likely to be more susceptible to manipulation and is conservative in reacting to them negatively in general. This 'cautious stance' by the market towards the reversals provides important, albeit limited, support for the adoption of fair value-based accounting standards. Although the market fails to differentiate between impairment reversals for genuine economic reasons and the ones driven by reporting incentives among loss-making firms, it nevertheless reacts to the reversals by profitable firms in a positive and 'correct' way, which is subsequently supported by future operating performance. Therefore, financial reporting from an investment perspective is improved by the adoption of IAS 36 in the UK, because at least investors and potential investors in profitable firms receive additional useful financial information regarding the firms of their concern. This should be considered a positive development in financial reporting.

Thus, broadly speaking, the empirical evidence provided by the current study lends support for the adoption of fair value accounting in valuing corporate assets. On average, it appears that firms in the UK reverse impairments in a manner that reflects genuine increases in the ability of their PPE assets to generate additional economic benefits. The market perceives reversals in the context in which they are made and does not value all reversals in the same way. We note that the generally positive relation between subsequent operating performance and reversals coupled with the discerning market reaction to them suggests that the decision of the IASB to allow impairment reversals is justified.

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ENDNOTES

[1] The average reversal when pre-reversal net income is negative is 29.7 per cent of market value. Accordingly, the influence of a reversal in this scenario is 0.297*(0.17–0.21) = –0.0119 or about –1.2%.

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THE (SHE) WOLF OF WALL STREET

Corina Sheerin
School of Business, National College of Ireland, Dublin 1

ABSTRACT

The recent release of the Wolf of Wall Street *movie has reignited interest in the extreme lifestyle and behaviours of Wall Street executives. The movie portrays life in 'front office' investment management as one characterised by excess, and those who succeed in the sector as assertive, driven individuals who all happen to be male. Using the lens of gender, this research examines, within an Irish context, what perceptions and beliefs are held among potential entrants to the sector regarding the personality traits necessary to survive and succeed. Subsequently, the influence, if any, of experience of working in the sector is explored for both men and women. The research makes an important contribution to existing literature by exploring whether the 'wolfish' characteristics deemed essential for survival in the hegemonic-masculine investment management environment have led women to believe they will never fit within this culture and as such opt out. Findings indicated that gender differences were apparent among potential entrants to the sector with women ranking assertiveness, confidence and the ability to network more highly than their male peers. Experience of working in the sector did not affect the views of women. For men working in the sector, less importance was placed on factors such as confidence, personal initiative and communication skills when compared with male peers with no experience.*

INTRODUCTION

One of the most striking features of third-level education and the global labour market is that despite improvement in the numerical presence of women, significant differences exist in the fields of study and occupations of men and women (Weisgram, Bigler and Liben, 2010). In particular, women are significantly

under-represented in fields such as construction, engineering and computer science in both the classroom and the workplace. A significant body of literature has examined women's perceptions and experiences in these domains (Rosenbloom, Ash, Dupont and Coder, 2008; Hegewisch, Liepmann, Hayes and Hartmann, 2010; Johnson, 2013). Within the field of finance, women are statistically well represented in an Irish context. In 2010, 56 per cent of all those undertaking third-level undergraduate finance programmes[1] were male while 44 per cent were female. Statistics for 2009 and 2008 showed a relatively even gender breakdown also[2] (Higher Education Authority, 2013). At postgraduate level, however, divergence between the genders undertaking programmes in finance is evident. Men outnumbered women in 2010 by a ratio of 2:1, clearly indicating that women are leaking from the education pipeline (Higher Education Authority, 2013). In 2009, 432 students undertook postgraduate study in finance; 86 per cent of these were male (n=371) compared with only 14 per cent female (n=61) (Higher Education Authority, 2013).

In the labour market, women are well represented with almost 60 per cent of all employees globally in the financial services sector female. Despite women being well represented within the sector overall, there persists a dearth of women in management roles and a notable absence of women in the subsector of investment management. A mere 19 per cent of women working in the financial services sector progress to leadership or senior roles and only 2 per cent to chief executive officer (CEO) positions (PricewaterhouseCoopers, 2013, p. 1). The absence of women in investment management is most acute within fund management and trading roles (the most lucrative roles within the sector). According to Riach and Cutcher (2014) and Lewis (1989, p. 9), here 'a jungle of chest-pounding males' prevails.

'Financial services' is an overarching term, which is typically used to describe three primary business functions, namely banking and capital markets, investment management, and insurance (Forfás, 2007). Over the last decade, some literature concerning women's experience of working in financial services sectors such as insurance and retail banking has emerged in a global context (Burgess, 2003; Ozbilgin and Woodward, 2004; Ogden, McTavish and McKean, 2006; Broadbridge, Maxwell and Ogden, 2007). Within an Irish context, research concerning women's representation, experience and perceptions of financial services is somewhat limited. For the most part, research of this nature has focused on women in the related domains of accounting and, to a lesser extent, auditing and taxation (Barker and Monks, 1998; Twomey, Linehan and Walsh, 2002). The common theme within the existing research is the under-representation of women at senior management levels in their professions.

To date, the subsector of investment management has been relatively under-researched in academic literature (McDowell, 1997; Rowe and Crafford, 2003; Roth, 2006; McDowell, 2010; Pryce and Sealy, 2013). Albeit a sector under-researched in academia, over the last number of years sector-specific gender-related issues have received widespread coverage in the media, with a number of whistleblowers sharing their experience of working lives in the sector (Anderson, 2009; Suzana, 2009; Thompson, 2010).

'Investment management' is a term that is widely used in both the media and within the financial services sector. Despite the ubiquitous nature of the term, it does

not have clearly defined parameters and is sometimes referred to as 'investment banking' or 'portfolio management'. For the purpose of this study, the investment management sector is classified by the parameters set down by Forfás (2007) whereby the sector is comprised of two sub-groups of employment, referred to commonly as 'front office' (investment management) and 'back office' (fund servicing).

Generally, 'front office' refers to those working in roles such as trading and positions related to the management of funds. The required employment profile for these roles is personnel with high levels of quantitative and mathematical skills. Almost all candidates working in investment management would, at a minimum, hold a postgraduate degree in finance or a related discipline or a professional qualification such as the Chartered Financial Analyst (CFA) qualification. Within the Irish market, front office positions are scarce and commonly seen as high-value, well-paid and knowledge-intensive roles (Forfás, 2007). 'Front office' investment management is often simply referred to as 'investment management', and this convention will be adopted for the remainder of this paper.

While there are no global statistics concerning the gender composition of the investment management sector, it is widely accepted that front office roles are where 'men form the majority' and 'the old boys' club seems to have become an accepted norm' (Rowe and Crafford, 2003, p. 24). The typical environment is one where 'hundreds of men in smart navy blue suits stand around shouting at each other. Nearly all of them are white and most under forty' (Anderson, 2009, p. 20). On the trading floor this is even more prevalent and 'one woman for every hundred men' is not uncommon (Lynn, 2005, p. 45).

The question of why women are absent from front office roles in the sector is a relatively under-researched one. The most common reason proposed in the literature is that women simply are not the right 'fit' for the sector (Pryce and Sealy, 2013, p. 461). The culture of investment management is accepted as one that is dynamic and cut-throat in nature and is dominated by driven, confident, assertive individuals whose key objective is profit-making at all costs (McDowell, 1997; Rowe and Crafford, 2003; Roth, 2006). This is a perspective further embedded by the media and movies like *The Wolf of Wall Street*. In their study of UK investment managers, Pryce and Sealy (2013, p. 450) indicated that the macho and aggressive environment of investment management glorifies the 'individualistic pursuit of financial gain at all cost'. According to Jones (1998) and McDowell (1997), women, when compared with men, are often overtly or covertly excluded from front office roles in investment management. This is primarily a consequence of the entrenched perceptions and beliefs widespread within the sector and further perpetrated by the media that women do not have the right personality traits to fit within the male-dominated culture of the sector (Estes and Hosseini, 1988; North-Samardzic and Taksa, 2011; Wilson, 2012). These exclusion tactics also have the effect of discouraging potential female entrants into the sector and as such may explain why women are leaking from the postgraduate pipeline in finance.

Holland (1996, p. 367) argued that 'people flourish in their work environment when there is a good fit between their personality type and the characteristics of the environment'. This research aims to identify what expectations and beliefs are held amongst the potential entrants, namely postgraduate students, regarding the

personality traits considered necessary to fit within front office investment management roles. In particular, this paper focuses on whether a gender difference exists among the expectations of men and women regarding traits necessary for survival in the sector. Finally, whether experience has an influence on the perspectives of men and women was explored. Examining the views of postgraduate students both with and without experience of working in investment management allowed for analysis of whether the beliefs of women and men differed as experience of the sector was gained. Examining these questions allows us to consider whether the Irish investment management sector is similar to other environments and whether women are opting out of investment management front office roles because of the hegemonic, masculine environment as depicted in *The Wolf of Wall Street* and the consequential belief that they will never fit within this culture.

Rees (2005, p. 567) claims that it is vital that companies and institutions understand the 'business case' for gender equality and appreciate how a more gender-equal team contributes to the bottom line. This is an issue that is becoming critical to policymakers across many different occupations, but in particular within male-dominated fields of study and work. This study makes a very valuable contribution in addressing this question within the field of investment management. Most recently, the Horizon 2020 European Union research on gender equality within science highlighted concerns about the need for gender balance within science and its importance in overall organisational performance (Lichten, 2013). In order to achieve the objective of gender equality, understanding the expectations and perceptions of potential entrants, and in particular female potential entrants, concerning life in the sector is essential.

Within an Irish context, this is the first study to focus on perceptions and beliefs about the traits necessary for survival and success within investment management and as such makes an important contribution to existing literature. Equally, this research has strength in addressing the perceptions of both potential entrants and those already working in the sector. Addressing whether men and women differ in their beliefs about life in the sector as well as identifying whether those 'wolfish' traits as portrayed in the media are in fact barriers to women is essential in redressing the gender imbalance currently evident in the fund management suite and trading floors of front office.

The research strategy involved a mixed-method approach using focus groups as well as a questionnaire survey, underpinned by a pragmatist philosophical stance. Adopting this approach allowed for a more holistic understanding of relevant ideologies and practices to explain the factors that contribute to survival and success within the sector. Equally, mixing methods allowed for 'complementarity' of results as well as 'expansion' of the breadth and extent of the inquiry (Greene, Caracelli and Graham, 1989, p. 259).

The remainder of the paper is organised as follows. At the outset, the context for the research question under examination, which is cross-disciplinary in nature and draws upon the fields of organisational behaviour, economics, finance and sociology, is set out. A summary and critique of pertinent literature that describes the factors underpinning occupational choice, as well as the investment management working environment and the commonly held perceptions concerning the sector,

is presented. Understanding the culture and organisational context underpins an understanding of what personal characteristics individuals in the sector of work deem essential in order to fit in, survive and ultimately succeed. A quantitative comparative analysis of the views of men and women concerning ten personality traits deemed essential for success is explored based on the findings of the survey. The paper concludes with an examination of the implications of the findings.

LITERATURE REVIEW

The Career-Testing Ground

Within the fields of sociology and organisational behaviour there is an acceptance concerning the complex relationships that exist between the individual and society and in particular individuals and the occupations they choose, as well as the organisations they work in. Adya and Kaiser (2005) and Adya (2008) claim that the choice to seek careers in male-dominated sectors like investment management is hugely affected by socially constructed perceptions of the sector and expectations of life within. Morgan, Gelbgiser and Weeden (2013) and Hakim (2002) argue that social stereotypes concerning the role of women in society and in particular within certain sectors of work cause women to start developing attitudes towards certain careers and occupations at an early age. Watt (2010) concluded that personality traits and individual-led factors such as self-efficacy, expectations of success and motivations, along with socio-cultural factors, underlay the career choices of women, particularly in male-dominated fields. Eccles (1994), in her model of educational and occupational choice (titled the Model of Achievement Related Choices), propounded that a range of psychological and social factors influence educational and occupational choice, with the primary concern being expectations of success borne of personality fit.

Expectations concerning occupations and/or working life in certain sectors are often shaped by parents, peers, teachers and media influence as well as environmental and cultural factors (Eccles, 1994; Bandura, Barbaranelli, Caprara and Pastorelli, 2001; Schoon and Parsons, 2002; Brown, 2004; Adeyemo, 2005; Mello, 2008; Ham, Junankar and Wells, 2009; Eccles, 2009). However, the reoccurring theme across the literature concerning educational and occupational choice relates to the influence of personality and whether one has the traits considered necessary for success in certain careers. Larson, Rottinghaus and Borgen (2002) and Ham et al. (2009) argue that the decision to choose a particular career path is intrinsically linked to the personal characteristics of an individual.

In recent years, a growing body of literature has emerged that draws upon psychological theories to explain occupational choice. The overarching message from this literature is the strong correlation between gender, personality type and occupational choice (Heckman, Stixrud and Urzua, 2006; Borghans, Duckworth, Heckman and ter Weel, 2008; Furnham and Fudge, 2008). Cobb-Clark and Tan (2009) argue that occupational choice depends on personality, which is highly correlated with gender. Wigfield, Battle, Keller and Eccles (2002) claimed that gender difference exists in relation to goal-setting, attitudes towards careers and beliefs about self-achievement, and this contributes to the existence of gender inequalities within the

labour market. Heckman et al. (2006) go so far as to claim that personality has a greater effect on occupational choice than cognitive ability.

While no study has examined occupational choice within finance specifically, the fusion of economic and psychology theories has revolutionised and enhanced consideration of educational and occupational choice across all occupations. In the case of investment management, a small but emerging body of literature is evident concerning various aspects of the sector including culture and gender discrimination (McDowell, 1997; Jones, 1998; Poggio, 2000; Rowe and Crafford, 2003; Roth, 2006; McDowell, 2010; Pryce and Sealy, 2013). A number of biographies have also been authored by men and women concerning life in the investment management sector, and most notably its prevailing culture and norms (Lynn, 2005; Anderson, 2009; Thompson, 2010).

The emergent theme from the academic literature and biographies alike relates to the culture of the sector that is characterised by a male-dominated environment where one must adopt a certain personality type and ultimately subscribe to the 'boys' club' mentality to fit in and succeed. In order to examine whether a gender difference exists among potential entrants concerning expectations of life in the sector, and the necessary personality traits deemed essential for survival, a comprehensive exploration of the overarching organisational culture including its embedded rituals, processes and behaviours is warranted.

Investment Management – Perceptions and Realities of Life on the Inside

Networking

When examining the perceptions of potential female entrants as well as the experiences of women working in male-dominated sectors, networking skills, being a team player and communicating effectively are seen as essential for success (Thompson, 2010; Anderson, 2009). Within the domain of accounting in Ireland, Barker and Monks (1998, p. 816) uncovered the fact that effective networking is essential for success; however 'women appear to lack the support networks which men have developed over the years'. This is despite the fact that 'no differences in the ambitions of male and female accountants' were found in their research. Within investment management, beliefs concerning the prevalence of the old boys' network and lack of support for women in accessing networks is even more acute (McDowell, 1997, 2010; Jones, 1998; Lynn, 2005; Thompson, 2010; Moya, 2011). Within the front office 'men form the majority' and 'the old boys' club seems to have become an accepted norm' (Rowe and Crafford, 2003, p. 24).

In particular, the 'old boys' network' was seen at its most evident on the trading floor (Long, 2009, p. 23). Thompson (2010, p. 54) concurred, highlighting that the 'broking floor is arguably the most aggressive, male dominated environment that anyone could work in' and as such difficult for women to access. Jones (1998), in his United Kingdom (UK)-based study, along with Moya (2011), in a United States (US) context, agreed and argued that the masculine culture is continuously being reinforced through both image and the recruitment processes. Moya (2011) indicated that for most potential entrants or those seeking promotion, there is an unspoken understanding that 'men who have traditionally dominated Wall Street and the City

of London tend to appoint and promote people like themselves. People are very comfortable with people who are like them. Being a female in a male-dominated world can make it difficult.' Roth (2006, p. 73), within a US context, similarly found that 'the culture of machismo and fraternity-like environments is the stuff of Wall Street lore'. Ely (1995) and Lockwood (2006) argue that for women considering a career or working within male-dominated occupations, there is a heightened perception of behavioural and psychological differences between the genders and, as such, the issue of 'fit' remains a concern.

Assertiveness, Confidence, Personal Initiative and Leadership

Rowe and Crafford (2003), Roth (2006), Anderson (2009) and Thompson (2010) agreed that 'in addition to the male domination of the industry, there appears to be a typical character suited to Investment Banking' (Rowe and Crafford, 2003, p. 23). They described this typical character as an assertive, confident leader who thrives on personal achievement. Anderson (2009) in particular highlighted the importance of confidence and personal initiative in selling oneself – personality traits he claimed were more readily associated with men. Estes and Hosseini (1988) proposed that women are often less confident than men in their own decision-making abilities and, as such, are not hired in equal numbers to men in investment management roles. Such a lack of confidence is sometimes perceived as inability or 'lacking the killer instinct' (Wilson, 2012). Wilson goes on to argue that so few women reach the top in banking, finance and journalism because they are perceived as not having what it takes, while 'men who reach the top have usually done so possessing a steely ruthlessness and single-mindedness which is … let us be honest … is a masculine quality' (Wilson, 2012).

Problem-Solving and Communication Skills

According to Pryce and Sealy (2013, p. 450), individuals who are problem-solvers and who 'show initiative, [and are] proactive' will survive the investment management sector. According to McDowell (2010), such troubleshooting skills, along with the necessary numerate ability needed for front office roles, are more likely to be found among male recruits. Anderson (2009) argued that while being numerate and technically adept was important, ambition far outweighed in terms of importance. He indicated that despite having interviewed several exceptionally academically gifted individuals, both male and female, the new recruits to front office were always a certain type – they 'generally ticked all the stereotypical boxes: ambitious, white, male, heterosexual Oxbridge graduates' (Anderson, 2009, p. 352).

Davies (2012), a former UK investment banker, claimed that the ability to confidently communicate was the most important attribute for front office employees. She argued that 'it doesn't always matter what you say as long as you deliver it with supreme confidence'. Effective and persuasive communication is an essential skill set in any occupation within male-dominated fields of work and study. When examining communication and language through the lens of gender, it is evident that men and women communicate very differently. Women are seen to 'value talk for the relationships it creates' (Merchant, 2012, p. 19) and as such are often cited as better communicators than men. Within investment management, female

communication styles that are orientated towards creating relationships are not always favoured. Instead a more male-orientated communication style, whereby men perceive the world they engage in as a 'hierarchical social order' (Tannen, 1990, p. 361), and communication as a means to advance, is preferable. According to Merchant (2012, p. 19), men see conversation as an opportunity to 'enhance social dominance', achieve goals and maintain an elevated status rather than engage in communal orientations, all of which fits within the performance-driven environment of investment management.

The Working Environment

One of the traits most emphasised in the literature as essential for survival in investment management is the ability to function effectively within the pressurised performance-led working environment. According to Roth (2003, p. 788), 'Wall Street is driven by compensation as a measure of success'. Hewlett and Luce (2006, p. 53) concurred, indicating that performance drives the sector and the 'extreme work ethos' is common. According to Lewis (1989), a certain type of employee was necessary for investment management. Such employees 'gave themselves entirely over to their employers and worked around the clock' – such individuals were identified as 'good employees'. They were usually male, unmarried, with no commitments: 'rarely they slept, the more they looked ill [and] the nearer they appeared to death the better they appeared at their job' (Lewis, 1989, p. 41).

McDowell (2010, p. 654) proposed that investment management is aggressive in nature. She further argues that on the trading floor particularly 'an aggressive, hetero-sexualized masculine confidence in men's own abilities creates an atmosphere inimical to many women, and to homosexual men'. Turco (2010, p. 903) agreed, describing the sector as 'macho, aggressive', 'intense and ruthless'. Jones (1989) argued that as a consequence of the inherent performance-driven working environment, it is supposed therefore that only those individuals with a high level of objectivity and a detached personality can survive the pressure. Rowe and Crafford (2003, p. 24) similarly concluded that the 'right fit' for investment management were individuals who were motivated by personal performance – 'an obsessive type of character'. They claimed that 'men tend to be more focused on one obsessive thing which fits with the industry as opposed to women who generally have a range of interests'.

Anderson (2009, p. 29), drawing upon his own experience in the sector, indicated that in the graduate recruitment phase he understood very quickly that 'playground banter is one of the most important skills in Investment Banking'. He noted that, demonstrating the ability 'for taking the piss and not flapping when having the piss taken out of me … were more important than diligence or analytical ability in gaining the respect of the trading floor' (Anderson, 2009, p. 29). Thompson (2010) similarly described the importance of having the right personality to be part of the 'club' in order to survive the sector. She experienced the sector as one where women were seen as the outsiders, and this was particularly an issue for mothers who were balancing work and home.

Morgan et al. (2013) highlighted that women consider the issue of work–life balance when selecting and eliminating certain career paths and this commences at the

outset of their careers. They indicated that young women both expect and anticipate the conflict between work and home life long before they experience it, and as such opt out of careers considered incompatible with family life, such as investment management. Thompson (2010), in her own biography of life as a trader, highlighted the lack of work–life balance. She also drew attention to the homosocial behaviour that was part of the fibre of the sector. She recalls how she anticipated such an environment but not to the degree that she experienced. She highlighted how she was nicknamed 'airbags' by her colleagues and this was positioned as a term of endearment (Thompson, 2010, p. 51). McDowell (1997) also referred to the sexualised language used to objectify women. She indicated that women anticipated such behaviour and were routinely referred to as '"skirts", "slags", "brasses" and "tarts", all synonyms for "prostitutes"' (McDowell, 1997, p. 141). Anderson (2009, p. 9), however, indicated that such comments were not limited to women and such behaviour was simply part of the culture of the sector and to be expected. Profits and performance were the driving force and inappropriate behaviour and language were accepted as a part of the landscape. Human resource training and policies to address this behaviour were, at best, ignored. The pertinent view was that to survive the sector a 'thick skin' personality type was a prerequisite.

In order to achieve success in certain roles within investment management, client entertainment was deemed essential. Like many other aspects of the culture, it is highly saturated with masculine traits. Strip clubs were seen as a common form of entertainment to 'conduct business meetings', according to Thompson (2010, p. 53), and this is a fact that is further highlighted by the media. Hargreaves (2008) concurred and claimed a 'lap dance ethos' remains at the heart of the Square Mile and this often discourages young women from even considering a career in the sector. Anderson (2009, p. 57) claimed that 'the macho City culture made it difficult to relate to women' and if women want to gain entry they have to present and engage like 'one of the boys'. Sport was also seen as an integral aspect of client entertaining and almost always the sporting event 'revolved around men's sports and men's activities' (Roth, 2006, p. 85). Roth (2006, p. 85) further claimed that such an environment 'really impacted [women's] ability to develop relationships with people'.

Maddock and Parkin (1993) labelled such performance-focused environments as cultures of 'smart machos' where managers were all-consumed by a pressure to perform and did whatever was necessary to advance their careers. According to Davidson and Burke (1994, p. 30), employers who facilitate 'the "smart macho culture" have no desire to block employees who can work eighty hours a week and deliver on time'. Maddock and Parkin (1993) and Davidson and Burke (1994) claimed that such employees were usually presented as single and male.

The working environment of investment management and the difficulties women face in breaking into this male-dominated field concurs with the evidence from other disciplines including science, healthcare and academia. Kemelgor and Etzkowitz (2001, p. 240), in their study of women in science, indicated that women faced both the real and perceived old boys' network of obstacles on a daily basis and in particular the practices of 'ongoing subtle and overt exclusion'. They claimed that 'two worlds' (Kemelgor and Etzkowitz, 2001, p. 242) were in place, one for each gender. Rhoton (2011) argued that for many women the choice of opting into

work within a male-dominated environment implies ignoring gender differences and accepting certain masculine behaviours as normal professional practices, leading women to feel it necessary to exhibit characteristics of aggression, ambition, etc. in order to fit in. Bevan and Learmonth (2013) indicated that subtle discrimination was commonly experienced by women in healthcare science and, not unlike investment management, very often it was not highlighted or discussed by women as they had anticipated it and now, once inside the sector, accepted it as the industry norm. Most women in investment management, much like healthcare, 'accept' the fact that the decision to 'become one of the boys' and enter 'the club' brings with it barriers, hurdles and blocks. Bevan and Learmonth (2013, pp. 137–138) highlight that women have indicated that they are aware of the difficulties that lie ahead but they 'had no language through which to question and oppose – or even fully articulate – these difficulties'. Sonnert and Holton (1995) and Valian (2005) drew similar conclusions within the domains of academia and science.

Path to Success

In order to gain entry, endure and succeed in investment management, the key factor emanating from the literature is the need to fit into the male-dominated, performance-orientated nature of the sector. McDowell (1997, p. 130) referenced the importance of 'flexibility, team spirit and an ability to fit in' in order to succeed within investment management. According to Anderson (2009, p. 1), morphing into a 'brash suited FT carrying idiot … egotistical buffoon [and a] greedy ruthless wanker' is a prerequisite for success in investment management. Adopting such an image often proved problematic for women. Roth (2006, p. 94), in her interviews with female Wall Street employees, revealed that 'women faced expectations that they would behave in appropriately feminine ways, even though cultural constructions of femininity clashed with male definitions of managerial competence in Wall Street's male dominated culture'. Brown (1995, p. 41) proposed that the 'rules of the game have become increasingly personalised' and 'the selection of elites has traditionally been associated with a cultural code consistent with images of masculine managerial authority, expert knowledge and the right school tie'. Jones (1998) and McDowell (1997) supported this view of the influence of the old boys' network.

Groysberg (2008) similarly noted that for women 'entering the entrenched culture' of Wall Street there was 'less than wholehearted acceptance' from their male peers. Within the day-to-day working environment, homosocial practices are well embedded and, in order to gain entry, it is necessary to exhibit certain characteristics and personal traits, led by confidence, assertiveness and the ability to be detached and ruthless. McDowell (1997, p. 175) noted that the 'view that women lack the necessary attributes of a successful trader was widespread'. Many men and women within the sector believed that a dealer is by definition 'an aggressive male [and] that's how dealers are, an aggressive woman … it's not natural' (McDowell 1997, p. 175). Rowe and Crafford (2003, p. 24) similarly cited evidence that female investment managers indicated 'if you try and compete with your male colleagues you are viewed as a bitch'.

The difficulties women face both in entry into and retention within investment management are borne out of widely held beliefs as well as the reality of a range of

obvious discrimination tactics along with covert exclusionary behaviours. For many women, covert discrimination is far more difficult to address as it's not always possible to articulate. Exclusion strategies such as male gatekeepers, recruitment via the old school tie, male-dominated sporting events for client entertainment and acceptance of laddish behaviour as the norm in the office are examples of 'exclusionary closure' tactics (Davies, 1996, p. 662) and 'effective closure regimes' (Bolton and Muzio, 2007, p. 47). The ideology of 'closure' has been defined by Parkin (1974, p. 3) as 'the process by which social collectives seek to maximize rewards by restricting access to rewards and opportunities to a limited circle of eligibles'. These references to exclusion and closure behaviours have a common foundation in Weber's 'social closure' theory, which has its traditions in the field of sociology (Weber, 1922), and this theory may have validity within the domain of investment management and explaining why women are absent.

'Closure', according to Weber, denotes 'the more or less intentional process of groups drawing boundaries against outsiders, driven not only by economic interests but also by tradition of affectual bonds' (Cardona, 2013, p. 2). Closure regimes have emerged as successful strategies within elite professions like investment management to facilitate 'boundary drawing' and ensure that women are excluded (Costen, Hardigree and Testagrossa, 2012, p. 3). Social closure theory is built on the premise that women and men are different, particularly in relation to their personality traits. As such, female potential entrants' 'differences' to their male peers can be used as a 'defence mechanism' (Ashley, 2010, p. 4) by men to highlight and perpetrate the view that women do not fit with the culture of the sector. By erecting barriers and drawing boundaries in a 'hostile' environment, women can be discouraged from considering investment management as a career path and those who do enter the sector are ultimately excluded from the investment floor, thus ensuring that men can maintain their position, power and status and keep women 'outside the club'.

The literature review has indicated that occupational choice of men and women is influenced by a number of factors, most notably social and individual-led factors, and in particular perceptions about life in certain occupations, expectations about career success and the necessity of personality fit. The literature also proposed that gender, personality traits and occupational choice are related and this is acutely evident when examining why individuals select non-traditional educational and occupational choices. In the case of investment management, research concerning potential entrants and why they opt in (or out) of the sector is absent in an Irish context; however, a large body of research concerning the societal perceptions of working life in the front office of investment management exists. The evidence suggests an image and indeed a reality of a culture that is patriachial in nature and nurtures a driven, aggressive and fast-paced, dynamic environment. This research aims to examine what are the perceptions of postgraduate finance students, as potential entrants to investment management, regarding the sector. Thereafter whether men and women differ in their views is explored and the influence (if any) of experience on men and women's views is examined. Such an examination allows us to establish whether within an Irish context women are opting out of the sector because they believe they do not have the 'right fit'.

RESEARCH METHODOLOGY

The primary methodological approach when examining life in investment management has been through the use of interviews (McDowell, 1997; Jones, 1998; Rowe and Crafford, 2003; Pryce and Sealy, 2013). This research aims to introduce some quantitative analysis into the body of knowledge concerning investment management. Specifically, this study examines if any statistically significant differences exist between men and women concerning their belief about what personality traits are considered necessary to succeed within the sector. This question was examined via the use of a questionnaire survey that was completed by 191 respondents. The survey was an original research tool and was a purposeful choice influenced by the non-existence of a suitable standardised and validated questionnaire in the literature.

The questionnaire survey was developed based on the results from two focus groups and relevant literature. Focus groups were held with postgraduate students in finance. One focus group was conducted with full-time students undertaking an MSc in Finance who were considered to be potential entrants to the sector and had no work experience. The second focus group was undertaken with part-time students who had some experience of working in the investment management sector full-time and were studying part-time. Focus group participants were asked to discuss the factors they considered essential for survival and success within investment management. The less structured nature of the focus groups enabled participants to express opinions in an unconstrained manner and explore their attitudes in response to the remarks of other respondents, thus revealing greater insights about the research problem. The focus group discussions were recorded and the results were subsequently compared with relevant literature. A detailed phase of analysis with multi-stage coding was undertaken using N-Vivo 9. The analysis phase confirmed a substantial amount of correlation between the focus group responses and the existing literature, which had highlighted assertiveness, confidence, leadership skills and working under pressure among the essential skills considered necessary for employment. The results of the analysis led to a final cluster of ten factors considered important for career success in investment management, as seen in Table 1.

TABLE 1: CAREER SUCCESS IN INVESTMENT MANAGEMENT

Assertiveness
Communication skills
Good at numeracy-based subjects
Ability to network
Team player
Personal initiative
Confidence
Problem-solver
Ability to work well under pressure
Good leadership skills

The questionnaire survey contained the ten factors as presented in Table 1 and asked respondents to rank, in order of preference on a five-point Likert scale, the importance of each factor for a career in investment management. The continuum extended from 'Very Important' to 'Very Unimportant'. Specifically, Likert scales were adopted for use within this study as they facilitate the measurement of 'attitudes, providing a range of responses to a given question or statement' (Jamieson, 2004, p. 1212). Cronbach's alpha, which measures the internal consistency of the scale items, was 96 per cent, indicating a high level of internal reliability in the measurement scale.

The sample was comprised of students undertaking postgraduate study in finance across the Irish third-level sector. This included the university sector, the institute of technology sector and privately owned colleges. The criteria for inclusion required respondents to be studying either part-time or full-time. Students undertaking postgraduate programmes that were dual honours in nature, for example an MSc in Finance and Economics or an MSc in Finance and Accounting, were also considered for inclusion. The final sample consisted of seven academic institutions (Table 2).

TABLE 2: QUESTIONNAIRE SURVEY SAMPLE (N=191)

Institution	Programme of Study		Population	Sample	% Response Rate by Institution
	MSc/MA in Finance	MSc in Finance (Dual Honours)			
Institution A	✓		25	20	80%
Institution B		✓	26	21	79%
	✓		32	31	
Institution C		✓	46	43	93%
Institution D	✓		12	7	84%
		✓	22	17	
		✓	36	35	
Institution E	✓		17	17	100%
Institution F	✓		25	0	0%
	✓		20	0	
Institution G		✓	20	0	0%
		✓	30	0	
Total			*311*	*191*	*61%*

Of these seven institutions, five facilitated direct access to students. Within these institutions, the questionnaires were administered in paper-based format for self-completion by respondents. The sample group was comprised of students with experience of working in investment management (n=46) who were undertaking their studies part-time and those who did not have any experience of working in the sector (n=145) and were studying full-time. The sample comprised of just below 60

per cent men and 40 per cent women (Table 3). The majority of participants had no experience of working in the sector (76%).

TABLE 3: QUESTIONNAIRE SURVEY SAMPLE (N=191)

Respondents According to Experience & Gender (n=191)	Experience (E)	No Experience (NE)	Total
Male	n=30 (16%)	n=79 (41%)	n=109 (57%)
Female	n=14 (7%)	n=62 (33%)	n=76 (40%)
Gender not declared	n=2 (1%)	n=4 (2%)	n=6 (3%)
Total	*n=46 (24%)*	*n=145 (76%)*	*n=191 (100%)*

The overall response rate was 61 per cent and this was considered reasonable, compared with other similar studies. Baruch and Holton (2008) undertook a wide-scale examination of survey response rates across 490 different peer-reviewed research papers and 400,000 individual respondents. They concluded that an average response rate of 62 per cent for surveys that were self-administered was the accepted norm.

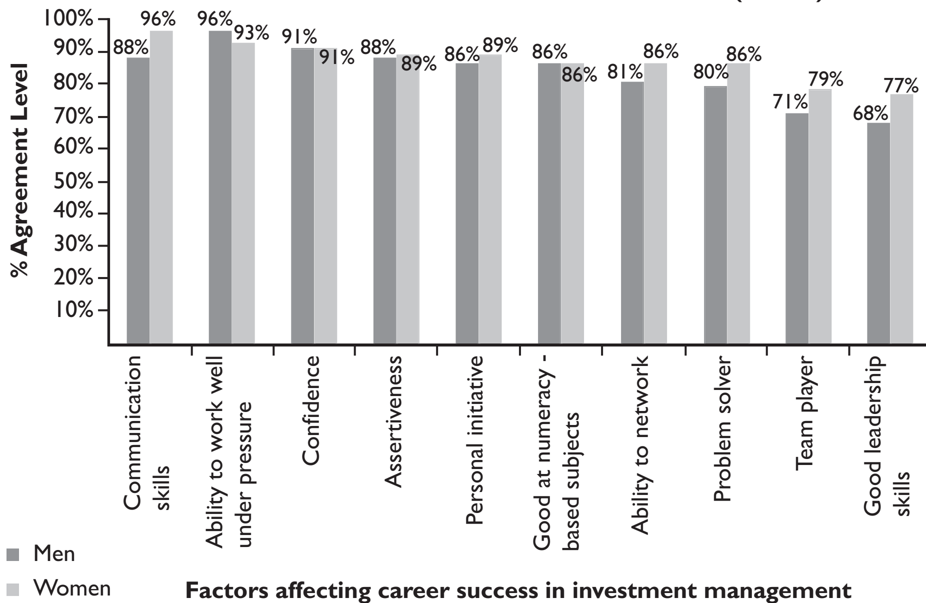
ANALYSIS

In order to provide a context prior to any statistical analysis being undertaken, it was important to ascertain what factors both men and women considered important for survival and success in the sector. Figure 1 illustrates the respondents' ranking of factors affecting career success in investment management, classified by gender.

There is general agreement between men and women concerning the personality traits necessary for success in the sector (Figure 1). Working well under pressure and being confident in one's own ability was highlighted by men and women alike. Men and women differed only in the relative order of factor importance. For men, working well under pressure was ranked most important (96%), followed by confidence (91%), and assertiveness and communication skills (88%). For women, communication skills ranked first (96%), with the ability to work well under pressure ranking second (93%), followed by confidence (91%). In order to examine if any statistically significant differences exist between men and women, and indeed whether experience in the sector had an impact, further analysis was necessary using inferential statistics.

The variables within this survey were defined as categorical where categorical data includes both nominal and ordinal measurement scale. Nominal variables included gender, and the Likert scale adopted in this survey is ordinal in nature. Most academics agree that Likert scales are ordinal in nature and as such do not possess a normal probability distribution (Cohen, Manion and Morrison, 2000; Kuzon, Urbanchek and McCabe, 1996). Jamieson (2004, p. 1217) argued that Likert scales are ordinal as 'the response categories have a rank order but the intervals between values cannot be presumed equal'. As a consequence of the data types being ordinal and nominal in nature, non-parametric tests were deemed valid to

FIGURE 1: EXAMINING WHAT IS IMPORTANT FOR A CAREER IN INVESTMENT MANAGEMENT THROUGH THE GENDER LENS (N=150)



investigate whether a difference existed in the ranks of men and women and hence whether experience impacted the ranked importance attributed to the factors by both genders concerning the traits listed in Table 1. Specifically, the non-parametric statistical test adopted was the Mann–Whitney (U) test. The Mann–Whitney (U) test is the non-parametric equivalent of a traditional t-test for independent samples. Specifically, the hypotheses under examination examined whether men and women have different views concerning factors necessary for survival and success in investment management and whether experience impacts this. Hypothesis 1 sets out to test whether women and men differ in their beliefs while Hypothesis 2 is presented in two parts (a) and (b), which examine the question of whether a difference exists between the genders when experience of the sector is gained (2a), and whether a difference exists within the genders when experience of the sector is gained.

Hypothesis 1

Ho: There is no systematic difference between men and women with no experience of working in investment management concerning the ranked importance of the factors listed in Table 1.

Ha: There is a systematic difference between men and women with no experience of working in investment management concerning the ranked importance of the factors listed in Table 1.

Hypothesis 2(a) (between the genders)

Ho: There is no systematic difference between men and women with experience of working in investment management concerning the ranked importance of the factors listed in Table 1.

Ha: There is a systematic difference between men and women with experience of working in investment management concerning the ranked importance of the factors listed in Table 1.

Hypothesis 2(b) (within the genders)
Ho: The ranked importance assigned by men (women) concerning the factors listed in Table 1 does not change with experience of working in investment management.

Ha: The ranked importance assigned by men (women) concerning the factors listed in Table 1 does change with experience of working in investment management.

The version of Mann–Whitney adopted for all tests was a two-tailed, non-directional test. The test results presented represent an asymptotic two-sided test with p value results being considered statistically significant if the relevant asymptotic p value was less than 5 per cent ($p < 0.05$). Statistical Package for the Social Sciences (SPSS) was used to undertake the calculations and the reported p value is the asymptotic (rather than the exact) value, which is in line with Corder and Foreman (2009).

FINDINGS

The culture of investment management as a cut-throat dynamic and fast-moving sector sets the backdrop for the responses of respondents concerning the personal traits necessary for entry to the sector. In response to what personality traits and characteristics underpin a career in front office investment management, for men and women alike, the ability to work well under pressure, and to be confident and communicate effectively, featured as important. There was evidence of general agreement between men and women concerning the personality traits necessary for success in the sector. Working well under pressure and being confident in one's own ability was highlighted by men and women alike. Men and women differed only in the relative order of factor importance. For men, working well under pressure was ranked most important (96%), followed by confidence (91%), and assertiveness and communication skills (88%). For women, communication skills ranked first (96%), with the ability to work well under pressure ranking second (93%), followed by confidence (91%). These findings are in line with those of McDowell (1997), Rowe and Crafford (2003), Roth (2006), McDowell (2010) and Pryce and Sealy (2013), as well as those concerning related fields of finance such as insurance and retail banking (Burgess, 2003; Ozbilgin and Woodward, 2004; Ogden et al., 2006; Broadbridge et al., 2007).

Hypothesis 1

For those with no experience of working in the sector, the median response as described in Table 4 indicates that men and women alike considered all the factors presented very important (rank=1) or important (rank=2). The mean rank for men and women is presented in column 5 of Table 4.[3] The final column indicates the Mann–Whitney (U) test p values. Where the p value is less than 0.005, the null hypothesis that no difference in the rankings of men and women exist is rejected at the 5 per cent level of significance. Clearly evident from Table 4 is that while women

attributed more importance to every factor listed, no statistically significant differences existed in the mean rankings of men when compared with women for those with no experience of working in the sector.

TABLE 4: NO EXPERIENCE OF WORKING IN INVESTMENT MANAGEMENT: WHAT PERSONAL CHARACTERISTICS ARE IMPORTANT: MEN V WOMEN? (N=140–141)

	Gender	N	Median Response	Mean Rank	Mann–Whitney (U) test (*P* value)
Assertiveness	Male	79	1	73.04	0.482
	Female	62	1	68.40	
Good at numeracy-based subjects	Male	78	1	72.97	0.398
	Female	62	1	67.39	
Communication skills	Male	79	1	74.05	0.282
	Female	62	1	67.11	
Team player	Male	79	2	74.30	0.191
	Female	61	1	65.57	
Personal initiative	Male	79	1	71.44	0.880
	Female	62	1	70.44	
Confidence	Male	79	1	73.08	0.355
	Female	61	1	67.16	
Ability to network	Male	79	1	73.20	0.452
	Female	62	1	68.20	
Problem-solver	Male	79	2	75.61	0.114
	Female	62	1	65.12	
Ability to work well under pressure	Male	79	1	72.40	0.621
	Female	62	1	69.22	
Good leadership skills	Male	79	2	73.92	0.242
	Female	61	1	66.07	

Hypothesis 2

The question concerning experience was examined from the perspective of whether experience influenced the beliefs of men (women) when compared with women (men) as well as within the genders. Table 5 sets out the results for whether a difference exists between the genders once experience of working in investment management is acquired. From Table 5, it is clearly evident that for those with experience (n=46), differences between the genders were clearly apparent. Within Table 5, where a statistical difference was identified between the mean ranks of men and women, effect size was reported. Effect size was calculated based on Rosenthal's (1991, p. 19) measure of r where $r = |z/\sqrt{n}|$. Field (2009, p. 57), in line with Rosenthal (1991), defines effect size according to the following scale: $r < 0.3$: effect size is small; $0.3 < r < 0.5$: effect size is medium; and $r > 0.5$: effect size is large.

TABLE 5: EXPERIENCE OF WORKING IN INVESTMENT MANAGEMENT: WHAT PERSONAL CHARACTERISTICS ARE IMPORTANT? MEN V WOMEN (N=44)

Characteristic	Gender	N	Median Response	Mean Rank	Mann–Whitney (U) test (*P* value)	Effect Size
Assertiveness	Male	30	2	25.93	0.005	(*r*=–0.41)
	Female	14	1	15.14		
Good at numeracy-based subjects	Male	30	2	24.38	0.122	
	Female	14	1	18.46		
Communication skills	Male	30	2	25.13	0.032	(*r*=–0.31)
	Female	14	1	16.86		
Team player	Male	30	2	25.05	0.045	(*r*=–0.30)
	Female	14	1	17.04		
Personal initiative	Male	30	2	25.97	0.005	(*r*=–0.41)
	Female	14	1	15.07		
Confidence	Male	30	2	26.27	0.002	(*r*=–0.46)
	Female	14	1	14.43		
Ability to network	Male	30	2	26.02	0.005	(*r*=–0.41)
	Female	14	1	14.96		
Problem-solver	Male	30	2	24.83	0.062	
	Female	14	1	17.50		
Ability to work well under pressure	Male	30	1	24.77	0.056	
	Female	14	1	17.64		
Good leadership skills	Male	30	2	25.35	0.024	(*r*=–0.34)
	Female	14	1	16.39		

Table 4 shows that in all cases of gender difference, women attributed a higher level of importance to the factors than men.[4] In particular, women with work experience highlighted the importance of confidence (p=0.002), assertiveness (p=0.005), ability to network (p=0.005) and personal initiative (p=0.005) more highly than did their male peers. The effect size in each case was considered medium. In the case of communication skills, being a team player and good leadership skills, a statistically significant difference in the mean rankings of men and women was noted. Although the statistical difference was deemed small (see effect size), women did rank these factors consistently higher than did their male peers.

The findings thus far reveal that women when compared with men who had gained experience of the sector had much stronger views regarding the necessary personality traits for survival. Tables 6 and 7 set out the results when the question of whether women's (or men's) views altered when experience of the sector was obtained. Results from Table 6 indicate that for men with and without experience of working in investment management, a difference exists concerning the ranked importance of the factors presented. Interestingly, the results indicate that men with no experience of working in the sector rank assertiveness, communication,

TABLE 6: PERSONAL CHARACTERISTICS AND INVESTMENT MANAGEMENT: MEN WITH NO EXPERIENCE V MEN WITH EXPERIENCE (N=109)

Characteristic	Experience	N	Median Response	Mean Rank	Mann–Whitney (U) test (*P* value)	Effect Size
Assertiveness	Experience	30	2	67.80	0.006	(*r*=0.27)
	No experience	79	1	50.14		
Good at numeracy-based subjects	Experience	30	2	60.10	0.224	
	No experience	79	1	52.35		
Communication skills	Experience	30	2	68.48	0.003	(*r*=0.28)
	No experience	79	1	49.88		
Team player	Experience	30	2	63.33	0.079	
	No experience	79	2	51.84		
Personal initiative	Experience	30	2	68.85	0.003	(*r*=0.29)
	No experience	79	1	49.74		
Confidence	Experience	30	2	71.45	0.000	(*r*=0.35)
	No experience	79	1	48.75		
Ability to network	Experience	30	2	66.40	0.015	(*r*=0.23)
	No experience	79	1	50.67		
Problem-solver	Experience	30	2	62.55	0.108	
	No experience	79	2	52.13		
Ability to work well under pressure	Experience	30	1	65.97	0.014	(*r*=0.23)
	No experience	79	1	50.84		
Good leadership skills	Experience	30	2	63.05	0.092	
	No experience	79	2	51.94		

TABLE 7: PERSONAL CHARACTERISTICS AND INVESTMENT MANAGEMENT: WOMEN WITH NO EXPERIENCE V WOMEN WITH EXPERIENCE (N=76)

Characteristic	Experience	N	Median Response	Mean Rank	Mann–Whitney (U) test (*P* value)
Assertiveness	Experience	14	1	37.00	0.768
	No experience	62	1	38.84	
Good at numeric-based subjects	Experience	14	1	38.46	0.994
	No experience	62	1	38.51	
Communication skills	Experience	14	1	41.43	0.554
	No experience	62	1	37.84	
Team player	Experience	14	1	38.04	0.994
	No experience	62	1	37.99	
Personal initiative	Experience	14	1	35.61	0.569
	No experience	62	1	39.15	

(*Continued*)

TABLE 7 (*CONTINUED*)

Characteristic	Experience	N	Median Response	Mean Rank	Mann–Whitney (U) test (*P* value)
Confidence	Experience	14	1	38.50	0.917
	No experience	62	1	37.89	
Ability to network	Experience	14	1	35.25	0.523
	No experience	62	1	39.23	
Problem-solver	Experience	14	1	39.68	0.817
	No experience	62	1	38.23	
Ability to work well under pressure	Experience	14	1	39.25	0.880
	No experience	62	1	38.33	
Good leadership skills	Experience	14	1	36.39	0.752
	No experience	62	1	38.37	

confidence, personal initiative and ability to network as more important than their male peers working within the sector. The most prominent evidence of this difference was for confidence and personal initiative.

For women, experience of the sector did not cause any factor to be ranked differently, with women's views remaining consistent from pre-entry to life within the sector (Table 7).

CONCLUSIONS

In examining the findings using the lens of gender and then experience, it is clearly evident that all respondents, regardless of gender or experience, agree on the importance of confidence, assertiveness, numeracy skills and working well under pressure within investment management. For those with no experience of working in the sector, no statistically significant difference between the genders was evident. This suggests that from an Irish educational point of view, an unbiased view of the opportunities and hurdles in investment management is presented to male and female students alike. For those men and women who have worked in investment management, women systematically ranked a number of factors – including confidence, ability to network, assertiveness and personal initiative – as more important skills for survival and success more highly than their male peers. This concurs with the findings of McDowell (1997), Rowe and Crafford (2003), Roth (2003), Anderson (2009) and Thompson (2010), who all drew inferences wherein women felt they had to adopt wolfish characteristics of assertiveness and confidence and conform to the masculine ideology if they were to survive and succeed in investment management.

For women, the views of potential entrants to the sectors when compared with those working in the sector yielded no statistically significant differences. This indicates a similar outlook and set of perceptions and beliefs being held by those women outside the club and those women inside the club. Similarly, Roth (2006), Jones (1998) and McDowell (1997, 2010), in a US and UK context respectively,

highlighted the perceptions and beliefs of women concerning their need to demonstrate aggression, assertiveness and confidence both when seeking employment within investment management and once employed within the sector. These results also suggest that social closure theory may have validity in explaining the absence of women from front office investment management. Women inside and outside the sector recognise that in order to gain acceptance by their male peers, and to attempt to overcome the covert discriminatory characteristics and exclusion tactics that are entrenched within the culture of the sector, they need to adopt certain behaviours. In the words of Lewis (1989, p. 53), 'everyone wants to be a big swinging dick, even the women … big swinging dickettes'.

For men, interestingly, potential entrants attribute more importance to assertiveness, communication skills, personal initiative, confidence, ability to network and ability to work well under pressure than their male peers already working in the sector. One possible explanation is that men inside the sector enjoy preferential treatment when compared to their female colleagues, purely as a consequence of their gender. This explanation is in line with Anderson (2009) who indicated that inside the sector he realised that being male was enough to put him at an advantage when compared with female counterparts. He indicated that this was apparent even from the early stages of his career where he was told 'you had the job five minutes into the interview. We need sharp, cocky dickheads and you fit the bill nicely' (Anderson, 2009, p. 24). Similarly, Jones (1998) presented findings whereby women were seen as 'outsiders' while men once inside the sector recognised they were very much the right 'fit' for the sector. Such 'tactical opportunism' (Bolton and Muzio, 2007, p. 49) facilitates development of ideologies whereby if women have to be let into the sector, boundaries can be drawn to ensure they are 'cordoned off' or 'ring-fenced' within less prestigious roles that they are 'more suited to' rather than front office roles, again giving credence to the validity of social closure theory in explaining why women are absent from front office investment management roles.

In summary, the findings from this study show that women and men agree on the importance of certain 'wolfish' characteristics for success and survival in investment management. The results reinforce the view that women feel they need to behave like men in order to survive and this is a widely held belief among women both inside and outside the sector. The findings also indicate that men, once inside the sector, do not attribute the same level of importance to certain factors as they did as potential entrants. As is portrayed in *The Wolf of Wall Street* and reinforced every day by various facets of society, investment management is dominated by men and this in itself is a prerequisite for success. These findings highlight the advantaged status of men and reinforce the view that within investment management, like many other male-dominated fields, 'they [women] must work harder than men for the same rewards' (Brett and Stroh, 2003, p. 76).

Implications of Findings and Recommendations

The findings from this research indicate that gender stereotypes, both real and perceived, remain a barrier for women in investment management. In order to address this concern, change needs to be enacted at a societal, organisational and individual level. At a societal level, the European Commission has stated that safeguarding

gender equality, particularly within the labour market, is essential for economic progress (European Commission, 2012). As such, within male-dominated sectors like investment management a framework of national, governmental and international policies as well as investment in gender equality legislation needs to be implemented and monitored. Rees (2005) argues that such a framework must highlight the consequences of gender inequality in terms of the 'business case' in order to get 'buy in' from firms. She argues that if business sectors understand the importance of gender equality and appreciate how diversity in talent and the inclusion of women in decision-making will contribute to the bottom line they will enact change. Gender equality must be reframed as an economic concern rather than a social justice issue, with the understanding that gender diversity is essential to ensuring innovative and diverse research.

At a societal level, educators also have a role in highlighting gender inequality and the importance of diversity across the labour market. As such, learning outcomes of programme curricula should consider the inclusion of content relating to organisational cultures, diversity and gender inequality. Equally, developing an understanding among graduates of the skill set and attributes considered important for certain occupations and facilitating them in developing a more transferable range of skills that are gender-neutral is essential in preparing them for the working environment ahead.

At an organisational level, the need for workplace reform is essential in order to deconstruct the perceptions and beliefs that women do not 'fit' within front office investment management roles. Specifically, change in terms of the recruitment and promotion processes as well as everyday work practices is necessary. Clear and transparent recruitment and progression policies articulating job requirements and hiring policies are needed. Equally, gender-balanced interview panels that have clear criteria set out for assessing candidates are essential in ensuring that employees are not recruited/promoted because they simply 'fit the bill nicely' (Anderson, 2009, p. 24).

In terms of work practices, men and women alike agreed that investment management is underpinned by an extreme male-dominated culture where working well under pressure is essential for success. To ensure the patriarchal environment moves to a more gender-neutral space, organisations must commit to initiatives such as periodic reviews of institutional practices and policies to ensure that gender equality is an active and live concern among all stakeholders. Organisations also need to commit to ensuring sanctions are set out for those in breach of dignity and respect policies in the workplace. These sanctions need to be enforced regardless of seniority, ability or the profit-making ability of the individual breaching regulations.

Finally, at an individual level, men and women will inevitably behave in a way that benefits them. This often leads to 'closure regimes' created by male and female 'elites' inside the front office. In order to tackle this issue, increased awareness needs to be highlighted for male and female elites alike. For men working in the front office, fostering the view that women are not a threat to their position is vital. For women working in the front office, awareness of the need to reach out to other women as opposed to adopting the 'Queen Bee' philosophy is needed. Similarly, understanding that perpetration of damaging assumptions (e.g. women's

commitment to work is undermined by their potential to have a baby) is detrimental to the progression and success of all women.

Limitations and Future Research

This research, using the lens of gender, has examined what perceptions and beliefs are held among potential entrants and those inside the investment management sector regarding the necessary personality traits for success and survival. While the research has provided understanding concerning this issue, it is not without its limitations. Specifically, survey respondents were drawn from postgraduate finance programmes. This is the most direct route to an investment management career and as such was the criterion for being included in the sampling frame. However, it is not the only route to a career in investment management. Future studies should also examine the perceptions of engineering, mathematics and statistics postgraduate students, as well as chartered financial analyst (CFA) participants, in order to have a more comprehensive sample of potential entrants. Furthermore, this research elicited the views of those who had already expressed an interest in a career in investment management by undertaking postgraduate study in finance. Further studies should consider the views of those students who considered and rejected investment management as a career option in order to better understand perceptions about the sector as well as reasons why people opt out altogether.

In extending the research, the use of interviews alongside the focus groups and surveys would benefit this study. The findings herein clearly indicate that women, both potential entrants and investment management employees, see male-associated traits of aggression, assertiveness and confidence as far more important and valuable that their inherent feminine traits. The use of interviews to explore this further and extend the analysis to investigate why women feel this way would add significant value to the body of knowledge. Equally, interviewing men and asking those inside the sector why they changed their views in terms of a lesser-ranked importance being placed on certain traits, once inside the sector, and if this is because being male is enough.

ENDNOTES

1 ISCED (Intentional Standard Classification of Education) 343 Finance, Banking and Insurance.

2 In 2009, 1,091 students undertook undergraduate finance programmes of whom 54 per cent (n=585) were male and 46 per cent female (n=506). In 2008, of the 1,272 students enrolled on finance programmes, 49 per cent were male (n=630) compared with 51 per cent female (n=642).

3 The group with the lowest mean rank is the group that considers the relevant factor under consideration more important. Similarly, the group with the highest mean rank should have greater number of high scores within it and as such allocate less importance to the factor under consideration.

4 The direction of difference was estimated using mean ranks.

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AUDIT QUALITY THREATENING BEHAVIOURS: PERCEPTIONS OF AUDITEES

Breda Sweeney
National University of Ireland, Galway
and
Bernard Pierce
Dublin City University

ABSTRACT

Previous research has found that audit staff engage in audit quality threatening behaviours (QTB). Auditee personnel interact with audit staff during fieldwork, and their perceptions of QTB are reported in this paper. Interview findings reveal that auditees (particularly those with previous audit experience) perceive themselves as being in a position to detect some shortcomings in audit work; however, few consequences were perceived as arising from the behaviours and they reported a general reluctance to report the behaviours externally, should they be detected. Implications of the findings and areas for future research are discussed in the paper.

INTRODUCTION

A considerable body of research exists detailing responses of audit trainees and seniors to cost/quality conflict when carrying out audit fieldwork. Many of these responses threaten audit quality and have been referred to in this literature as audit quality threatening behaviours (QTB). These behaviours would be expected to be a concern to shareholders and auditees[1] as the audit has an important role to play in the credibility of financial reporting, and behaviours that have the potential to reduce audit quality could undermine the credibility of capital markets. While it is to be expected that shareholders would have little knowledge of the work carried out by auditors, Causholli and Knechel (2012) pointed out that even within companies

information asymmetry exists between auditees and auditors regarding the nature and extent of audit work and this information asymmetry can benefit the auditor. As identified by Causholli and Knechel, suboptimal outcomes of which the auditee is unaware, such as auditor over-auditing, under-auditing, or over-charging, can exist at the audit firm level. These suboptimal outcomes can also exist at the audit team level in the case of under-auditing, as identified in the numerous studies of QTB (e.g. Sweeney and Pierce, 2004; Pierce and Sweeney, 2004; Malone and Roberts, 1996).

QTB includes behaviours such as biasing sample selection, reductions in sample sizes, and accepting weak client explanations. The interactions between auditee staff members and the auditor can result in insights into the procedures and approach of the auditors (Causholli and Knechel, 2012). Power (1994) referred to the 'black box' of the audit process, whereby little of what happens during it is evident to those outside the process. Auditee staff who interact with the audit team should be in a position to provide insight into the 'black box' of auditing and their perspectives could be expected to contribute to a more comprehensive understanding of QTB. With the exception of Sweeney and Pierce (2011), little research has been carried out examining the perspectives of auditee staff members on their interaction with the external audit team. Sweeney and Pierce (2011) found that auditee staff perceived that they were in a position to exploit weaknesses in the management control system used by audit firms (such as the audit review process, audit methodology and training of junior auditors). Sweeney and Pierce also found that auditee staff perceived they could influence the audit team to engage in QTB. Auditee staff maintained that they were motivated by a desire for increased efficiency in the audit process and, while they maintained that this influence was actually co-operation, they firmly placed the responsibility on the auditors for ensuring that they had completed sufficient audit work (Sweeney and Pierce, 2011). This suggests that auditee staff may actually contribute to increasing suboptimal outcomes from the audit, rather than reducing the likelihood of their occurrence.

Pierce and Sweeney (2006) found that one of the justifications provided by audit seniors for QTB was lack of auditee concern with audit work. This justification, however, reflects the espoused perspective of audit seniors. Previous research has not examined the perspectives of auditees on QTB. Audit seniors and partners generally perceived few consequences of QTB, provided the behaviours were not detected externally (Pierce and Sweeney, 2005, 2006). External detection of QTB by auditee staff would be expected to have adverse consequences for audit firms and audit staff. As Carnegie and Napier (2010, p. 360) pointed out, 'upholding the public's trust is essential not only for preserving respectability but also for ensuring the survival of accounting's status as a profession'.

The objective of this study is to explore, using interviews, the perceptions of auditee personnel on QTB carried out by audit staff. This research contributes to the literature in a number of ways. Firstly, the findings demonstrate differences in the perspectives of auditee personnel, depending on whether they had knowledge of backstage audit activity through previous employment as an external auditor. Those who were ex-auditors had a greater insight and were more generally aware of shortcomings in audit work (in some instances this was based on their contact with the audit staff during the audit of the auditee's company). In contrast, those

without previous audit experience were not generally aware of the tests carried out by auditors and, with the exception of 'accepting weak client explanations', did not perceive themselves as being in a position to detect shortcomings in audit work. Secondly, while the term 'quality threatening behaviour' has been used in a stream of literature to refer to deliberate quality reductions, this conflates the outcome (QTB) with the motivation for the behaviour (deliberate). There is a need for more refined measures of QTB in future research studies to unpack the concept of QTB and recognise the behaviours separately from the motivations, which could reflect a deliberate reduction in quality or an inadvertent reduction due to inexperience or inadequate training.

Lastly, the study presents evidence of a lack of consequences from QTB perceived by auditee personnel, and a reluctance on the part of auditees to report any detected behaviours to the audit firm. Given that auditee personnel interact with the audit team on a regular basis while the team are in the field, they are in a key position to reduce the information asymmetry between the auditor and auditee and to provide an insight into the 'black box' of auditing, possibly leading to an improvement in audit quality where shortcomings are evident. All the interviewees in this study were qualified accountants and yet they did not seem to perceive any obligation to report shortcomings in audit work, and placed little value on audit work. This suggests an alignment of interests of auditees and auditors and lack of concern over audit clients' (i.e. shareholders') needs. The auditees interviewed in this study are professionals who could be expected to engage in more holistic, big-picture thinking and have an immediate connection to work as a source of identity and pride (Parkan, 2008). Yet their lack of concern over these behaviours points towards short-term thinking on the immediate consequences for themselves of any additional audit work that might result from reporting low-quality audit work, rather than longer-term thinking on the importance of the audit function in society.

BACKGROUND LITERATURE AND RESEARCH OBJECTIVE

Interactions occur between the different levels of auditee staff and auditors at various positions in the audit firm hierarchy. Higher-level interactions between the audit partner and auditee deal with issues such as audit fee discussions and financial reporting requirements; a stream of literature exists on negotiations at this level (e.g. Beattie, Fearnley and Brandt, 2004). The primary focus of this study is on auditor–auditee interactions at lower levels. Audit juniors and seniors perform the majority (measured on a time input basis) of audit work on the auditee's premises and interact frequently with auditee staff during this fieldwork. The following section discusses the literature on audit quality, specifically in relation to cost/quality conflict. This is followed by a discussion of the consequences of QTB. Finally, the research objective of the paper is presented.

Audit Quality and Cost/Quality Conflict

Recent reviews of the literature on audit quality have called for research that increases our understanding of the drivers of audit quality (Knechel, Krishnan,

Pevzner, Shefchik and Velury, 2013; Francis, 2011). Inputs to the audit are one important dimension of audit quality, and audit quality has been linked with the extent of audit work conducted (Carcello, Hermanson and Riley, 2002). Francis (2011, p. 135) maintained that 'An audit will only be as good as the quality of the evidence generated by audit-testing procedures'. Francis (2011, p. 135) pointed to the need for relevance and reliability of audit testing. Reliability refers to 'the inherent truthfulness of the evidence'. Auditee co-operation is likely to be important in ensuring reliability of audit evidence.

Audit firms are concerned with providing independent opinions on financial statements and, in so doing, frequently encounter conflict when attempting to control audit cost and quality (McNair, 1991). Being labour-intensive, the dominant element of cost is time and this is controlled using time budgets (Kelley and Seiler, 1982). Previous studies have found that auditors are under extreme time pressure to complete the audit work within the time budgeted (Kelley and Seiler, 1982; Otley and Pierce, 1996) and time pressure continues to be an area of dissatisfaction for audit trainees (Sweeney and Boyle, 2005). The quality of auditors' output is difficult to measure and auditors themselves have difficulty evaluating the quality of an audit after the work has taken place (Power, 2003). Controlling cost involves limiting time on an audit, but quality concerns may require audit firms to invest more time in the audit (Mautz and Sharaf, 1961). Cost/quality conflict and its impact on the audit team have been documented in the literature over the last few decades (McNair, 1991; Otley and Pierce, 1996; Sweeney and Pierce, 2004).

Audit staff have been found to react to these conflicting situations in a variety of ways. One approach to avoiding cost over-runs is to artificially reduce cost by under-reporting time (but complete the full programme of audit tests and thereby maintain audit quality). Other approaches involve a variety of deliberate and unapproved shortcuts that threaten to reduce audit quality (QTB) such as accepting weak client explanations, reducing sample sizes and prematurely signing off tests without completing the work (Kelley and Margheim, 1990; Pierce and Sweeney, 2004).

Due to the nature of the audit process, actions such as these can be very difficult to detect (Pierce and Sweeney, 2005, 2006). Power (2003) suggested that difficult decisions that auditors are forced to make on balancing cost and quality considerations are invisible at the front stage. The risk of these behaviours being detected externally was generally perceived by audit seniors and partners to be low (Pierce and Sweeney, 2005, 2006). While previous research suggests that auditee staff can influence auditors to engage in QTB (Sweeney and Pierce, 2011) and therefore have an awareness of QTB, it would be expected that actual QTB would be concealed from the auditee due to the vital importance of image management perceived by audit seniors (Sweeney and McGarry, 2011).

Consequences of QTB

While QTB has been shown to exist worldwide for well over 30 years, there appears to be little evidence of consequences of the behaviours for audit firms, individual auditors or society. The perspectives of audit partners (Pierce and Sweeney, 2005) and audit seniors (Pierce and Sweeney, 2006) have been sought on consequences and, in general, both groups perceived few consequences arising from QTB for the

audit team, provided the behaviours were not detected externally. Audit partners perceived that clan controls such as informal communication and intuition of the partners operated to ensure that significant areas were not overlooked (Pierce and Sweeney, 2005). Audit seniors maintained that the behaviours did not occur in significant areas (Pierce and Sweeney, 2006). If, however, the behaviours were detected externally, they could be expected to adversely affect auditor reputation and general perceptions of the quality of the audit, with possible consequences for decisions such as auditor retention. Auditor reputation 'relates to the market's perception of auditor competence and objectivity' and impacts on perceived reliability of information (Watkins, Hillison and Morecroft, 2004, p. 156). Audit seniors perceived that auditee satisfaction and maintaining an image of professionalism with the auditee were extremely important to the audit firm (Sweeney and McGarry, 2011).

In addition to an impact on perceived audit quality, actual audit quality may also be affected, and Knechel (2007) pointed out that non-sampling risk is increased if auditors are persuaded to discount negative results in audit testing. Knechel referred to Cullinan's (2004) study that argued that five recent large audit failures in the US occurred due to non-sampling errors in various forms, though these behaviours were not due to audit team QTB. The failure of auditors to alert the public to the impending banking crisis has further increased public concern over the role of auditors (Sikka, Filling and Liew, 2009).

Research Objective

Extensive research has been carried out on QTB from the perspectives of audit seniors (Pierce and Sweeney, 2004), audit juniors (Lee, 2002) and audit partners (Pierce and Sweeney, 2005). Given that auditee staff have greater contact than audit management with audit staff during the fieldwork, their perspective seems important and could lead to a more comprehensive understanding of QTB. Previous research has examined the perspectives of auditees on audit firms' control systems and has found that auditees perceive that they can manipulate audit staff into engaging in QTB (Sweeney and Pierce, 2011). However, perceptions of auditee personnel on QTB initiated by the audit staff themselves have not been previously reported. Hence, the objective of this study is to examine the perceptions of auditee personnel who interact with the audit team regarding QTB by audit staff. Specifically, this exploratory research addresses the awareness of auditee personnel of QTB and the perceived ease of detection and consequences of the behaviours.

RESEARCH METHOD

Semi-structured interviews were carried out with eighteen auditee staff from seven publicly listed companies in Ireland. The companies were selected from a range of industries and included service and manufacturing companies. A contact in each of the companies was approached by the researchers and asked to arrange a number of interviews with members of their staff who dealt, on an ongoing basis, with the external audit team. The interviewees were all qualified accountants[2] and had senior roles in the companies' finance departments (see Appendix 1). They all interacted

with members of an external audit team from one of the Big Four firms during the course of the audit. Where a number of interviewees were from the same company, they were in either different divisions or different sections, and therefore all interviewees dealt with different audit staff during the audit. Half of all the interviewees had previous experience working as an auditor. Hence, it was possible to compare the perspectives of interviewees depending on their work experience.

The interviews, lasting approximately 50 minutes, were all held in the offices of the companies and were carried out jointly by both researchers. The relevant extract from the interview schedule is contained in Appendix 1. Measuring awareness has long troubled researchers in psychology (see Nisbett and Wilson, 1977), and there are limitations surrounding this research on auditee personnel awareness of QTB. These limitations relate to bringing the QTB issue to their attention in determining awareness, which may result in social desirability bias in claiming an awareness that was not present prior to the interview. While the first question presented in Appendix 1 related to awareness of QTB, the findings reported in this study were part of a larger study where the interviewees were firstly questioned on a range of other issues such as audit firm management control systems. This enabled a rapport to be developed between the interviewer and the interviewee before sensitive questions were addressed. Finally, the interviewees were assured confidentiality and that no one other than the researchers would have access to the recordings of the interviews. While these steps help to reduce the likelihood of social desirability bias, we accept that it is a limitation of the study.

Interviews were recorded and transcribed following the interviews. Recommendations for data analysis in the literature (e.g. Lillis, 1999; Patton, 1990; Miles and Huberman, 1994) were followed in the coding and analysis of the data. Initial codes on the general areas of investigation were developed before the interviews commenced and these codes were refined as the interviews progressed. The main codes related to awareness of QTB (subdivided into accepting weak client explanations and other forms of QTB), detection of QTB, consequences of QTB, and reporting of QTB to the audit firm.

NVIVO (a software programme for analysing qualitative data) was used to organise the findings. Pattern analysis (Miles and Huberman, 1994) was used to draw and verify conclusions. This commenced during data collection and, following each interview, the researchers sought to identify the main patterns arising. For example, it became apparent that the perceptions of auditee staff varied depending on whether they had prior experience of backstage audit work. Adding evidence to confirm a pattern and being open to evidence that contradicts it is important in forming conclusions, as it helps protect against providing unreliable evidence (Miles, 1979). As suggested by Miles and Huberman (1994), the researchers checked for negative evidence that might contradict any of the conclusions reached in the analysis and also checked that the evidence backing up each finding appeared to be reliable. To help the reader gain a better understanding of the data, Appendix 1 sets out the main views of each interviewee, as recommended by Silverman (2000). In presenting the findings, sentences that appeared to represent a particular code or theme were used to present the 'thick description' (Denzin, 1994, p. 505) in the findings section. To preserve anonymity, we have assigned a number to each of the interviewees (refer to Appendix 1).

FINDINGS

The detailed interview findings are presented in this section and are organised according to the dominant themes: awareness and detection of QTB, consequences of QTB, and reporting of QTB.

Awareness and Detection of QTB

In general, auditees were aware of the possibility of QTB occurring, with two-thirds of the interviewees referring to it either possibly occurring or providing examples of it actually occurring. Of the six interviewees who were not aware of QTB, five had not worked previously as an auditor. As can be seen from Appendix 1, former auditors in general were more aware of QTB and 'having been an auditor you kind of know where the shortcuts are yourself' (10). 'You've been through it yourself … you'll generally have a good idea when an auditor is trying to short-change you … whoever else who mightn't have come through that route might just go, "I must be doing a great job, the auditor hasn't come near me in a week"' (8).

A number of different forms of QTB were addressed in the interviews and auditees were generally aware of 'acceptance of weak client explanations'. This is not unexpected given that the auditee is directly involved in the provision of this form of audit evidence. However, this was not necessarily considered a form of QTB by auditees as it was perceived that the behaviour could be due to lack of experience rather than a deliberate quality reduction on behalf of the audit team member. Analytical review was mentioned by a number of interviewees as an area where audit staff accept weak client explanations for differences in account balances between years.

Over-reliance on client work was also frequently referred to as a shortcoming that auditees were aware of, with ten interviewees referring to the possibility that this could occur (six of these interviewees had previous experience as an auditor). The increased pressure on auditees to prepare schedules for auditors was thought to increase the likelihood of over-reliance on client work: 'It is very easy from a client's perspective to give a sheet of paper supporting something and they say "That's grand" and stick it on the file … what is very important is to have a piece of paper on file … there is a lot more client preparation being required as part of the audit planning now' (1).

However, interviewees were not able to provide examples of it actually happening, as the amount of work done on information they gave the auditors was not visible to auditees. One interviewee referred to the increased documentation requirements of Sarbanes Oxley, which she felt was likely to have reduced auditor reliance on client work. Superficial review of documents was also mentioned by a number of interviewees and one maintained 'I could guarantee you that there are documents I have given the auditors that they haven't really read' (1).

Biasing sample selection was referred to by three interviewees (two of these were ex-auditors) and was described by one ex-auditor interviewee as 'the oldest trick in the book' (8). Another ex-auditor interviewee maintained she could 'certainly see how easy it is to do that, if you have selected three or four things that aren't working and just select three or four more that do work and then forget about the ones

that didn't, and not have to worry about them' (1). Regarding sample size, one ex-auditor interviewee referred to reducing sample sizes and felt that auditors could adopt a discretionary approach as it is based on judgement anyway and 'how much do you tick and bash so if you've got a list of accruals, and there's say a hundred accruals on it, do you tick and bash 5, 10, 50 or 100 of them?' (7).

Overall, interviewees felt they would have little visibility over whether auditors actually engaged in these behaviours. Most interviewees were of the view that it would be very difficult for an auditee to conclusively detect instances of QTB and 'the chances of me finding it would be fairly remote' (5). It was thought that auditors are 'going to be hiding it even more from us than they are from their own managers, so we're not going to be necessarily aware' (7). In general, interviewees were not aware of sample sizes or 'the detail of what work they are doing' (2) and 'you can't really tell what the quality or the quantity of testing has been' (3). They felt they would not be in a position to judge whether all the areas included in the audit plan are completed and would not 'appreciate fully sample sizes' (16): 'What I don't see excessively would be, for example, their work programmes and see whether or not you have somebody in [firm name] who signed off on all of those procedures' (1).

Because of time pressure, 'the actual exposure from the point of view of face-to-face contact is reduced' (14) and this was thought to further reduce the ability of the auditee to detect QTB as the limited interaction renders it 'difficult to see what quality you are getting out of it [the audit]' (13).

A small number of interviewees believed they could detect the behaviours if they wished. One maintained that if an auditee staff member wanted to know what the auditors had done he could find out by asking his staff 'what did they do and how did you work through it and what samples did you give, but usually it's "let them off"' (4). Another suggested that they would be aware of any bias in sample size as they know the items that are easier to select. Also, where auditees had to locate documents for auditors they would be aware of sample sizes and one interviewee maintained that 'it tends to be the same sample [size] every year' (3). This is consistent with previous research that suggests that auditee staff (especially those with long experience) perceive auditor control procedures and behaviour to be predictable (Hellman, 2006).

In certain cases, auditee staff could pick up on poor-quality work and an example was given where 'it was just clear to us that the person doing the work didn't really understand what he was doing and it became clear that [firm name] knew that too and they sent somebody more senior around to effectively re-do it a few weeks later' (1). Another instance was mentioned by the same interviewee where:

> We would have a sense that the audit manager and partner clearly aren't very happy with the audit work and they are having to do an awful lot more and come back with a lot more questions. And from time to time we have had experience ourselves of individuals who we felt just weren't doing a very good job and didn't seem to know what they were on about. Not always that it was problematic for us but just you would wonder how on earth would the audit team be happy with them (1).

Poor-quality work could also be detected from the working papers where auditees had sight of these. One example related to an incident where an audit staff member

had given a member of auditee staff their working papers on creditors, which were requested for a specific purpose:

> There was perhaps maybe half a page of text and many of the points I could see where they picked it up but it was amusing, just, when they wrote the story about it, like it was completely off the wall and it didn't really make any sense at all … it kind of reflected, I suppose, the senior having to write something up and this was the best he could do … it was like taking pieces of a jigsaw that don't fit together and somehow or other he'd managed to hammer them together but the manager didn't cop anything (7).

While these examples relate to poor quality of work rather than deliberate QTB, an example of possible deliberate QTB related to where auditors had requested certain documents at the start of the audit 'but there was some of them that we had ready for them and they never came back to check them' (12). Interviewees were generally unsure as to the scale of occurrence of deliberate QTB and one surmised that 'it would be a particular individual who would be inclined to do all of these things [types of QTB], not everybody doing some of them' (1). Some gave examples of their awareness of QTB from when they trained as an auditor, such as actions by one of their peers where 'it was all automatic tick, as we used to call it then, he wasn't really checking it off at all' (7). Interviewees also showed awareness of the pressures faced by auditors:

> I think a lot of it is a time issue. I am not casting any aspersions on them because I was an auditor myself …. My attitude to auditors certainly would have been different than my predecessor who didn't come from an auditing background and who thought they were the lowest form of whatever …. I would always have respect for auditors (2).

Many interviewees who were not previously employed as auditors maintained that they found auditors to be conscientious. They referred to the fact that auditees have to rely on reputation as a measure of the quality of work and 'we have got one of the Big 4 out there auditing us, that in itself gives you a certain amount of comfort' (16).

Consequences of QTB

While auditees did not generally perceive they were in a position to detect QTB, their perceptions of the consequences of QTB are important as they give us an insight into the value they attach to the audit work. Opinions varied as to the seriousness of the potential consequences of QTB by the audit team. The majority did not 'really see there as being any material consequences' (13) and were 'not too concerned if they get through the ten or twelve items on it [work programme] but that they complete the process and that they have to confirm to us that they haven't got an issue' (4).

> If they didn't complete five [items in a sample] … I'm not sure that that would really ever pick up anything significant. You know they only ever test small samples anyway (5).

> As far as they're [auditee top management] concerned, they want to get through the audit and get a clean bill of health, or whatever, and with few issues. I think that's more of their concern than whether issues have been missed (6).

> I'm almost indifferent to whether they are doing that or not … the cost/benefit to me, having my own controls in place to find something like that, are miniscule (8).

A number of factors were identified by interviewees as impacting on the consequences of QTB: audit area where QTB occurs, the strength of controls in the auditee organisation, the perceived value of the audit, and audit firm controls. First, regarding the audit area, the likelihood of consequences was thought to 'depend on where they are taking the shortcut' (10) in terms of materiality. Half of all interviewees referred to materiality and in general it was perceived that QTB would not occur in significant areas of the audit and 'a lot of those would be kind of superficial as opposed to having a material effect, as such' (13). If they occurred in significant areas, it was perceived that there would be an accounting scandal and that it would damage the reputation of the auditors:

> If there was some, what would you say, mindset, in the past, that corners could have been cut around significant issues, I think with all the accounting scandals and the fallout from all that, I think the accounting firms now are far more careful than they might have been in the past. They just can't afford another accounting scandal, you know (16).

'Bringing the whole accounting profession into disrepute' (1) was considered possible if the behaviours occurred on a widespread basis as 'the financial community generally does place a high regard on audit opinions so you have to feel that those are arrived at after, you know, proper procedures and good work, good professional standard of work' (1). Exposure to a lawsuit for the auditors ('they run the risk of being sued over it' (15)) was also mentioned and problems for the auditee if an error was picked up the following year and accounts had to be restated.

> If there was something there that you know wasn't picked up … it may kind of accumulate into a bigger issue than it would have been if it had been caught at the start (5).

> If you skew a sample size and then you realise that it was indicative of a bigger risk which was then not tracked, nobody would be thanking the audit firm for that, okay, number one, and certainly then directors who sign off on the accounts that the controls are in place would not be happy at all and there may be serious consequences on both sides … I imagine the consequences could be severe enough if it did actually prove to be endemic of a wider malaise, let's say, for both the firm and the client (14).

It was felt that if this happened, the auditee 'might consider changing auditors' (3). This was considered to be very unlikely as it was not perceived that the behaviours would occur in material areas.

Also, if QTB occurred on a frequent basis it was thought to have potential consequences for the level of preparation for the audit. It was perceived that it could influence the attitude of the auditee staff towards the auditors:

> If the shortcuts became a pattern, the amount of analysis coming back and support from the companies in due course would also weaken … the auditors, they do provide a very good function, an outside group coming to review, and a lot of people, we'll say outside the core finance team, don't quite know what these lads are doing around the place, what they are looking at, and may not realise, for the annual audit, that their review process is quite specific and quite focused. So auditors being in a place do support the controls and strengthen things around the place (4).

Overall, however, it was perceived that the behaviours would not occur on a frequent basis or in material areas. Regarding materiality, it was suggested that even if an auditee staff member deliberately hid something immaterial, it would have no consequences:

> I mean, if I put a hundred thousand away somewhere today and told the auditor it was an accrual for whatever or a whole load of books, it won't make any difference. It won't make a difference to their job, it won't make a difference to the audit, it won't make a difference to our accounts next year … in general terms, there won't be anyone coming back on it (11).

The second factor identified was the strength of controls in the auditee organisation. This was the next most frequent factor referred to after materiality of the audit area. There was a general perceived lack of value attached to the audit and it was perceived that there would be little consequences resulting from QTB for a 'well run' auditee (18).

> Corner-cutting won't necessarily mean that the accounts are misstated … if you have a strong control environment within your own company, it wouldn't mean that the accounts would be incorrect at the end of the day and I think that's possibly why … even if there has been corner-cutting, that the accounts are still materially correct at the end of the day (10).

Where the control environment was weaker, this was thought to have implications for the auditee and the auditor:

> It can have implications, especially if senior management in the company you're auditing don't engage that well with middle management. You can have a lot of collusion going on at middle management whereby they just have their own things going on …. Senior managers don't really have visibility of it and then if the auditors aren't going to pick it up …. So I think if you have a fairly lax kind of management controls inside in a company, it does have implications for the client, it sure as hell has implications for the auditor because things have a tendency to come back and bite you, if not this year, then in ten years' time (8).

> Obviously the double whammy for the auditors is that it is always the risky client that the incentive to do these shortcuts in practice is, and that is where the trouble is (1).

It was pointed out that it is the directors' responsibility to make sure the controls are working properly and 'therefore the likelihood is that even though the tests are not being done completely, that the control procedure is working and working

properly' (3). This interviewee felt that the general absence of any consequences for auditors was to do with 'just good control systems in most companies nowadays' (3). It was felt that auditors never 'brought up an issue that became a showstopper for anyone along the way … you are looking for the audit to support rather than relying on an audit' (4).

A number of interviewees perceived that auditors did not provide much value for a business and that there was little benefit from substantive testing and ticking-the-boxes type of work. In general, interviewees felt 'you aren't worried that their working papers aren't done, or don't formally document it properly, you are just delighted that they think they are happy' (1). Another mentioned that 'it's not my job to prompt them to ask the right questions' (14).

> I mean, obviously, if somebody comes back and asks you for an explanation and you know it's gone over their head and they say okay, you know that they are cutting a corner but I suppose at the end of the day … they are in a training firm, but I'm not here to give accounting lessons in the month of August (10).

One interviewee jokingly suggested that 'sure we would be delighted' (7) if QTB occurred as it reduced the volume of work for the auditee. At the same time, this interviewee acknowledged that the auditors do have an important job and 'there are times where I have effectively kept the auditors on people where I've nearly written, well, in fact, I have written the odd management letter comment for them, where I want them to hit on an area that might have been messing around in the past' (7). This was supported by another interviewee who perceived that 'auditors provide a very important service' (14).

Finally, a number of interviewees referred to the additional work that is carried out by audit partners, the audit review procedure and the likelihood that audit firms assign weaker auditors to less significant areas as being important factors in further reducing potential consequences of QTB. Interviewees generally perceived that the calibre of the audit partner and manager would be very high and some auditees maintained that partner involvement could compensate for any lower-quality work carried out by audit staff:

> If they [audit management] felt the audit work on a particular, either a complicated transaction or a particular accounting issue wasn't well handled, then they can get their assurance by doing some top-level reviews or having the partner and manager discuss it with senior people in the client (1).

> I think sometimes when that corner-cutting does go on, the audit partner, the really good ones will have these things in the back of their mind, and I spoke to the CFO and he told me to look out for this, you know I'll be checking that now when I come to have a look at this. Then he goes and he sees that yes, that doesn't tally with what I've been told. I better investigate that in a bit more detail, so I think those kind of softer skills sometimes can help compensate (8).

It was felt that partners have 'a very good understanding of the different elements of the group and probably a real insight' (9). Auditees perceived that the calibre of

staff varied with the importance of the area of the business and 'a slightly downgraded team' (9) was sent to the less risky areas. 'In every region some years there is an issue with the quality of the staff. We tend to get very, very good staff in Dublin … around the group that can vary and would be something we are very concerned about and would raise with them regularly' (1).

Poor-quality staff seemed to be frequently encountered by some auditees, and one interviewee mentioned that 'in the last two years that there was this one guy who didn't seem to have a clue, and he was there this year as well and he was still the same and he still didn't seem to know anything' (6). Others felt they had not 'personally experienced a huge degree of variance in quality of approach … we haven't had anybody who's been a total and utter disaster' (7). But at the same time, this interviewee acknowledged: 'Certainly you would get the feeling that there would be some individuals that would be much better than others in terms of their understanding of what's going on or their approach to things' (7). One interviewee maintained that the reason why weaker auditors are sent out to clients is that the audit firms are not 'cut-throat enough themselves, maybe, in how they manage their staff' (8). This interviewee elaborated further:

> There's a tendency to send them out to pasture … I'm not saying that pension funds, for example, aren't important audits but they'd often be regarded as one where the client mightn't see you that often …. I'd only know a handful of auditors who've really been told they must go … there is a tendency for a lot of people to train in audit and to see that as a route to getting their exams and getting the hell out of there and that's not necessarily conducive to getting the best results out of these people, if they have that kind of short-term view (8).

In addition to assigning weaker audit staff to less significant work, some interviewees felt that the audit review process would compensate for any weaknesses in audit staff:

> You're going to get people who are very good and people who are not as good and people with more or less experience …. You've lots of juniors walking around with pages or sheets with questions on them to which I assume what happens is, the next level up looks at them and says no, yes, no, yes. So I presume that is how that risk is covered off (18).

The audit review process was thought to be generally effective in detecting most of the weaker explanations: 'In a very complex business they don't realise that yes that is the answer to that question but there are three more questions I should ask. Some of those will get, the vast bulk of those I would say would get picked up at the next level but I am sure there are ones that slip through' (18).

During the review, it was evident that 'the manager would say "Go back and get more"' (2) and the audit team would often approach the auditee saying, '"Can you give us some back-up, I just want to get rid of this point"' (9). 'What you typically find is that they are back on to you again and maybe sort of "Look, I'm sorry for hounding you about this again but I've been asked to blah, blah, blah"' (7).

The effectiveness of the review was perceived to be very evident to the auditee when 'issues that we thought had been resolved kind of in the field with the team, it transpires that somebody is coming back to us a week or two later' (1). Sometimes it was felt that the audit senior might agree with the auditee that 'there is not an issue here, the guy you're talking to agrees with you, but the manager is still a bit picky about it' (7). It was felt that it was only when the review was completed that the auditee will 'know that there are no issues' (11). One interviewee mentioned that he had 'seen that process of the audit senior grilling the guys down here and then this fella, this director grilling this fella, and it's quite aggressive' (16). This aggressiveness was seen in a negative light by one interviewee who maintained that auditors do not have time to reflect:

> When he [the manager] does come down to do the review, he is basically barking at them the whole time, I won't say barking at them, but he is very much issuing, 'Now just go in and get that and don't spend time, don't waste time, don't be hanging about and asking whether they fiddle around, you have got to get on with doing something' (2).

Evidence of the senior's review of the junior's work would come from questions by the senior where 'I've spoken to, say, one of the junior guys and then one of the senior guys will ring you back and say well, you told this guy x, y and z, look I've just got a few more questions' (6). It was generally felt that the audit review was a good control as partners have a good knowledge of the business and 'can probe their own staff in turn' (8). The audit review and partner contact is now so 'hands on' (18) that it was thought to be effective in detecting QTB and 'it [QTB] would be a pretty risky thing for someone to do' (2). Another auditee mentioned that he had experience of one manager while he trained in the audit firm where 'he used to almost audit the auditor sometimes … can I have a look at this sample now and I'll just do a spot check on stuff' (8) but in general 'the audit profession is very poor around that, whereas if people felt that was happening they'd make sure their sample was right and that it was correct and that kind of stuff' (8).

While one interviewee referred to consequences for audit juniors where 'they would get a kick in the behind' (16), overall it was felt that there would be no consequences as the behaviours would not be detected. The next section discusses whether auditees would report QTB internally or externally if they did detect the behaviours.

Reporting of QTB

Interviewees were asked what course of action they would take if QTB was detected, and generally they maintained that they would not report specific incidences of QTB to audit firms. It was pointed out that this is not a decision auditees generally have to make, as 'it's most unlikely that a client would detect [QTB]' (1). One interviewee maintained that they 'would probably discuss it informally with the [audit] manager' (4) and another felt that it would depend on the relationship between the auditor and the auditee. Another jokingly suggested that if he detected a biased sample, 'I would be straight on to the senior manager or whatever to find out what was going on unless I approved a sample change myself, you know (laughs)' (8).

Also, 4 interviewees maintained that it would be more general issues that would be reported back rather than specific instances of shortcuts:

> I haven't come across somebody doing a shortcut and saying that I am now very uncomfortable with what they have done or what they've ticked. Generally it would be back to the quality of the staff and their understanding and that's the kind of issue you'd raise … you might at that point say, well, I didn't think they were as strong as last year (9).

> I suppose what we would do would be to draw the attention of the manager and partner to a person who we felt wasn't doing a particularly good job … but in those cases it is almost to do them a favour rather than any real issue for us because we wouldn't see any great risk to us from our perspective (1).

An example was given where the quality of staff was thought to be poor in the previous year and this was reported back to audit management: 'We felt there was a weak link in the chain and we did request that maybe they review their staffing the following year because at the end of the day we want a thorough audit done because there are accounts which are signed off' (10).

This was supported by another interviewee, who was of the view that: 'If we felt that the level of interaction was too much or that a lot of them would warrant a better quality of junior, maybe, or person asking the questions. I suppose we would feed that back, alright' (13).

Other than these seven interviewees (of whom only two would report the actual QTB), the other eleven interviewees generally felt that this would not be reported back to the audit firm. No notable pattern was observed between respondents depending on previous audit experience (three of the seven had no previous audit experience, while four did). It was pointed out that discussions with the audit firm are 'very practical nowadays, it's all driven by fees and that tends to be what the rows and the discussions are about rather than anything about quality' (3). This interviewee maintained that it would not be reported to audit firms as 'we are probably more influenced by wanting to get them out as quick as possible' (3). At the same time he felt it would probably go up the line within the client company in general conversations. Others mentioned that it would be spoken about internally to their superiors and they could decide whether to report it back to the audit manager. One interviewee, however, was extremely surprised he was even being asked if he would report this behaviour back to the audit firm as he felt that the answer was obvious:

> I would find it very strange if there was someone who was weak on the audit and the actual client told the partners in [firm name] 'I'm sorry you didn't look hard enough there', I'd be amazed by it. Have you ever found anyone that actually said yes? I suppose some people are better than others, but there is no way you would ever go back and tell them. I wouldn't, anyway (11).

One interpretation of this is short-term thinking on the part of the auditee where it is perceived that there is little to be gained from pointing out shortcomings and much to be lost in terms of possible greater scrutiny of auditee work by auditors.

The absence of any perceptions of longer-term implications for the credibility of the audit is noteworthy, given that the interviewees are all professional accountants.

DISCUSSION AND CONCLUSION

Given the dearth of previous empirical findings, this was an exploratory study of auditee personnel perceptions regarding QTB by audit staff. The findings indicate that auditees perceive themselves to be in a position to detect some shortcomings in audit work and there is evidence that auditees who are ex-auditors perceive themselves to be in a stronger position to do so than those without auditing experience. Acceptance of weak client explanations and over-reliance on client work were reported to be the most frequently detected behaviours. However, whereas auditees felt in a good position to detect these behaviours, they seemed often unsure as to whether the behaviours constituted deliberate QTB. Many of the interviewees raised the possibility that shortcomings in the conduct of the audit could arise from low-calibre or inexperienced audit staff, rather than conscious decisions to take shortcuts. Interviewees generally perceived few consequences of these behaviours and attributed this to a number of factors: occurrence of behaviours in immaterial areas, strength of auditee controls, little value placed by auditee on the audit, and audit firm controls resulting in detection of shortcomings. In general, interviewees were of the view that if these behaviours were detected by auditee staff, they would be discussed internally in the auditee organisation but not reported back to the audit firm. The findings point to a number of important areas for discussion, most notably, image management and the value of the audit to auditees and control systems. These areas are discussed in the following sections, along with the limitations of the study, implications of the findings, and areas for future research.

Image Management

Previous findings revealed that audit seniors perceived that the presentation of a professional image to auditees and not upsetting the auditee were extremely important for audit firms (Sweeney and McGarry, 2011). The importance of image management was also highlighted by audit partners (Pierce and Sweeney, 2005). Power (2003) maintained that difficult decisions made by auditors resulting from cost/quality conflict are invisible at the front stage. While interviewees lacked insight into whether shortcomings in audit work were attributable to cost/quality conflict, they were aware that pressure existed on auditors to take shortcuts and they also perceived shortcomings in some audit work. A difference was perceived between visibility of pressures and some shortcomings in the audit work that could be attributed to auditor inexperience, and actual detection of QTB. In general, interviewees did not perceive that they had the ability to detect QTB. The general awareness of pressure and shortcomings was higher among auditee staff who previously worked as auditors compared to those with no backstage experience of audit activity.

To date, the research literature is relatively silent on whether the interests of auditees and auditors are likely to align or whether auditees will adopt a more holistic perspective and show concern over behaviours that could reduce the value

of the audit and ultimately threaten the credibility of financial markets. Findings in this study reveal that the majority of interviewees maintained that they would be unlikely to report shortcomings in audit work (and particularly QTB) back to the audit firm (though it was pointed out that this is not a decision they generally have to make). This suggests an alignment of interests of auditee and auditor staff, rather than an alignment of interests of auditee staff and clients (i.e. shareholders). Previous findings suggest that image management protects the firms from any serious consequences of QTB by ensuring that behaviours are not detected externally (Pierce and Sweeney, 2005). While there was little evidence of actual external detection (other than poor-quality work, which was attributed to more benign reasons), auditees were aware of the potential for the behaviours to occur. However, they were generally not concerned about the behaviours due to a lack of value attached to the audit. This is discussed in the next section.

Value of the Audit to Auditees and Control Systems

Consistent with audit seniors' views on auditees reported by Pierce and Sweeney (2006), auditee personnel (regardless of previous audit experience) showed little concern regarding the level of testing carried out by auditors, as they felt that individual tests were unlikely to detect anything significant. Auditee personnel were also confident in their own control systems and placed little reliance on the audit, which appeared to provide exoneration from any obligation to confront shortcomings in auditors' work. Previous research supports auditees' confidence in their control systems and Francis (2004, p. 354) pointed out that a possible reason for the evidence suggesting that Big 4 audits are of higher quality may be that 'good' companies are more likely to select Big 4 auditors, are less likely to manage earnings, and in general are more likely to have higher quality earnings'. This leads us to question whether the value of the audit in society is related to the legitimacy conveyed by the audit opinion or the actual audit work carried out.

In common with the views of audit seniors and partners in previous research (Pierce and Sweeney, 2005, 2006), auditee personnel did not perceive that these behaviours would occur in any area of significance and that few consequences would result from the behaviours. Previous findings showed that audit partners and seniors perceived few consequences from QTB provided the behaviours were not detected externally (Pierce and Sweeney, 2005, 2006). Findings in this study suggest that even external detection by auditee staff would result in few consequences, as the behaviours seem unlikely to be reported back to the audit firm. The few potentially serious consequences mentioned by interviewees, such as bringing the accounting profession into disrepute and legal action, were dependent on what were considered more unlikely situations, such as the behaviours occurring on a widespread basis or in significant areas.

While auditees felt that auditors' controls would prevent many consequences of QTB, Sweeney and Pierce (2011) found that auditees were opportunistic in manipulating auditors into engaging in QTB when they perceived auditor controls to be weak. Audit staff are also likely to be opportunistic as to when they engage in deliberate QTB. The effectiveness of audit firm formal management controls is limited due to few opportunities for direct supervision in the field and the difficulty of

measuring audit quality (Pierce and Sweeney, 2005). As Power (2003) pointed out, auditors themselves have difficulty assessing if a 'good' audit has been carried out due to the poor visibility of audit quality. This suggests that auditor controls may not be as effective as perceived by auditee staff. However, it must be acknowledged that recent changes in the audit environment, including greater inspection and monitoring of auditors and greater requirements for documentation, may have led to a strengthening of audit firm control systems since previous research was conducted.

Perceptions of greater opportunities for QTB in less material areas are consistent across audit partners (Pierce and Sweeney, 2005), audit seniors (Sweeney and Pierce, 2004) and audit juniors (Lee, 2002). Areas of significance may not however always be evident to the audit team and this confidence in their ability to recognise material areas may be misplaced. Also, as pointed out by Sweeney and Pierce (2011), auditee staff would not normally have knowledge of audit materiality levels, hence their perception that the behaviours do not occur in more material areas may be inaccurate.

CONCLUSION

Overall, findings in this study provide further insight into the 'black box' of auditing. A general awareness among auditees (particularly ex-auditors) of the potential for shortcomings in audit work was highlighted. In addition, findings reveal a lack of concern by auditee staff over whether the behaviours actually occur, due to few perceived consequences of the behaviours, and a reluctance to report any perceived shortcomings in the audit work back to the audit firm.

There are a number of implications of these findings. For audit firms, auditee staff have greater direct contact than audit firm management with audit staff during fieldwork. As Sikka et al. (2009, p. 139) pointed out, 'Firms may train and educate their staff, but there is no guarantee that staff will necessarily subscribe to the values and pressures imposed upon them'. Information asymmetry exists between the individual audit staff member and the audit firm, and while internal auditee staff are in a position to inform the audit firm of any quality issues, they do not appear to do so. Consequently, audit firms are less likely to be able to 'weed out' any 'rogue auditors' (Pierce and Sweeney, 2005). Audit assistant–auditee relationships have been found to impact on auditee satisfaction (Ohman, Hackner and Sorbom, 2012) and audit staff are aware of the importance of auditee satisfaction to the audit firm (McGarry and Sweeney, 2011). It is difficult for audit staff to balance the need for co-operation from auditees with the need to remain objective and fulfil their public interest obligations (Sweeney and Pierce, 2011). As long as auditees perceive few negative consequences from QTB, and may in some instances see it as desirable (Sweeney and Pierce, 2011), there is less awareness by audit firms of the issue and less incentive to address it.

The findings also have implications for the audit profession. All of the interviewees in this study were qualified accountants yet they showed little concern over shortcomings in audit work. This suggests that their interests may be more aligned with auditors than audit clients (i.e. shareholders). It is a concern that qualified

accountants working in industry (as found in this study) and audit seniors in the firms (as found in Pierce and Sweeney, 2006) do not in general adopt a holistic perspective and consider the client (i.e. shareholders) in discussing the implications of shortcomings in audit work. This suggests a need to consider whether the professional training and education that accountants undertake is sufficient to promote more holistic longer-term thinking, which has been noted as a characteristic of being a professional (Parkan, 2008).

The findings must be interpreted in light of the strengths and limitations of the study. Regarding strengths, particular attention was paid to the design of the interviews and the use of an interview schedule. Both researchers were present for all of the interviews and attempted to attain a good rapport with the interviewees while remaining neutral in order to facilitate a good discussion. Furthermore, a structured method was used for data analysis and this was rigorously applied. Regarding the limitations, this was an exploratory study and detailed in-depth findings have not been sought on all aspects of auditees' perceptions of QTB. For example, one interviewee referred to increased documentation on requirements on auditors resulting from Sarbanes Oxley; how this may contribute to changing auditees' perceptions was not investigated. Furthermore, perceptions of auditee staff who interact with the audit team from Big 4 auditors cannot be taken to represent perceptions of all levels of auditee staff or of auditee staff from different-sized companies with non-Big 4 auditors. It is possible that higher-level auditee staff who interact with the audit partner and audit committee may have very different views on QTB and its consequences. Also, 'good' companies are more likely to select Big 4 auditors (Francis, 2004), and views of auditee staff in companies audited by small and medium-sized auditors may be very different. Data are based on one country only and views of auditees in other countries may differ. In addition, while the interviewers attempted to facilitate a good discussion in the interviews (as noted above), it is possible that interviewees may have been reluctant to fully disclose their views, given the sensitive nature of the issues. Furthermore, there are limitations surrounding the measurement of awareness, as discussed in the research methods section, and social desirability bias may have influenced responses. Finally, the data were collected during an economic boom and before the onset of a major recession in Ireland. Perspectives of auditees may vary significantly in different economic conditions.

Further research is needed to gain a deeper understanding of the issues raised in this paper. Considerable changes have taken place in the audit environment in the last decade, including greater oversight of auditors and requirements for greater documentation. These changes may have impacted on management control systems in audit firms and there is a need for more detailed longitudinal studies examining how interactions between auditors and auditees, and perceptions of auditees, may differ following changes in audit firm management controls.

Regarding the specific area of QTB, many of the previous studies on QTB have been quantitative studies that have examined antecedents and consequences of the behaviours. Our paper points to the need for the development of a greater understanding of the antecedents of QTB (which include the lack of auditee concern regarding QTB), and of the moderators of QTB (which include the perceived low risk of consequences arising for the audit staff member due to the remote chance

of auditee detection/reporting of the behaviours). In addition, the findings provide useful insights into the development of a more refined interpretation of QTB. Previous research has generally interpreted QTB as meaning intentional shortcuts in audit work, deliberately chosen in areas where they are difficult to detect and for the purpose of resolving cost/quality conflicts and avoiding budget over-runs. However, the findings in this study point to the need to unpack the reasons for its occurrence, which can vary from deliberate quality reductions to deficiencies in the understanding and competence of audit staff. The reasons for the occurrence of the behaviours directly impact on the efforts made by the audit staff member to conceal the behaviour and the effectiveness of audit firm controls in detecting the behaviours. The development of more sophisticated measures of QTB in future research studies would increase our understanding of the antecedents and consequences of these various behaviours. Both qualitative and quantitative studies are likely to be useful in this regard.

ENDNOTES

1. The organisation being audited is not the ultimate client as auditors are carrying out their role on behalf of external stakeholders. The term 'auditee' is used in this paper to refer to the organisation being audited rather than 'client'.
2. There are a number of different routes to qualification as an accountant in Ireland and a number of different professional accounting bodies such as Chartered Accountants Ireland, Chartered Institute of Management Accountants and Association of Chartered Certified Accountants. Background information was obtained on whether each interviewee had experience working in audit as part of their qualification.

APPENDIX 1

EXTRACT FROM AUDITEE INTERVIEW SCHEDULE

1. To what extent are you aware of ways in which members of the audit team could take unapproved shortcuts in the performance of their work?

   Potential probes
   Would these shortcuts be visible to the client?
   Would auditors be more likely to take shortcuts in particular areas of the audit?

2. Previous findings suggest that the audit team sometimes reduce the quality of audit work by cutting corners in the completion of audit procedures. Could you indicate the extent to which you believe auditors could engage in the following behaviours and the extent to which the client could detect each of these behaviours should they occur?
   - Biasing sample selection
   - Reducing sample size
   - Over-reliance on client work
   - Accepting weak client explanations
   - Copying documentation from the prior year file without regard for changes in the current year
   - Signing off a test without completing the work
   - Any other behaviour that you consider relevant

Potential probes
What has contributed to you forming this impression on levels of behaviours?
Have you any personal experience of these behaviours?
In what kind of situations would this have arisen?
Could this type of behaviour occur without you being aware of it?

3. What consequences would you associate with unapproved auditor behaviours such as those we discussed?

   Potential probes
   Consequences for clients?
   Consequences for audit firms?
   Consequences for individual auditors?

4. In the event that the behaviour is detected by a member of client staff, what action would be taken?

   Potential probes
   What factors would be taken into account in making a decision on possible courses of action?
   Impact on clients' perception of the quality of work of the audit team?
   Impact on retention of the firm as auditors?
   Influence clients' decision to obtain non-auditing services from the firm?
   Willingness of clients to pay a higher audit fee for greater testing by auditors?
   If lower-level client staff detected the behaviours would the detection be communicated upwards in your company? To which levels?

APPENDIX 1: AUDITEE PERCEPTIONS OF QTB

No. and Title	Previous Experience as Auditor	Number of Years since Worked as an Auditor	Awareness of QTB	Accept Weak Auditee Explanations	Other Forms of QTB	Detection of QTB	Consequences of QTB	Reporting of QTB
1. Group financial controller	Yes in Big 4 firm (not current auditors)	> 10 years	Know it can happen.	Very easy to give a short answer. Gave example of where auditor accepted simple explanation on complicated leasing transaction.	Can see how easy it is to bias sample selection, easy to over-rely on client work, could guarantee that auditors have not read all documents given to them.	Hard to detect. Gave example of where it was clear that person doing the work didn't understand it. Auditee not aware of detailed audit tests. Sometimes aware that partner/ manager not happy with audit work.	Happy with our numbers so not concerned if they accept weak explanation. Don't rely on the audit opinion for anything. Could bring the whole accounting profession into dispute if occurring on a widespread basis. Lower-quality staff would be assigned to less significant areas. Involvement of audit partner and audit review procedure would help ensure nothing significant missed. Incentive for QTB in risky clients so auditors need to be careful.	Might mention quality of staff to audit management but not incidents of QTB.
2. Divisional financial controller	Yes in Big 4 firm (not current auditors)	> 10 years	Could occur.	Occurs in analytical review as it is done in a cursory fashion and could fob them off with anything. Within any three individuals you will always get one that you can tell them anything.	Auditors look for more client prepared schedules. It is possible they over-rely on them but not sure if this happens.	Not aware of detail of work so only know from questions audit staff are asking.	Manager review would pick up any contentious areas. Risky for auditor as audit review is detailed. Leave auditors exposed. Not desirable for client or auditors.	No discussions with audit management on quality of staff as want to get them out as quickly as possible but discussed internally in auditee company.

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APPENDIX 1 (*CONTINUED*)

No. and Title	Previous Experience as Auditor	Number of Years since Worked as an Auditor	Awareness of QTB	Accept Weak Auditee Explanations	Other Forms of QTB	Detection of QTB	Consequences of QTB	Reporting of QTB
3. Divisional financial accountant	No	N/A	Not aware of QTB.	Auditors very thorough and no experience of this.	Could bias sample selection.	Can't tell the quality or quantity of testing so no way of knowing. Tends to be the same sample size each year so would notice if difference there.	If error detected following year, could result in restatement of accounts and change of auditor but this would be unlikely. If client controls are good then no consequences from shortcuts. Directors' responsibility to ensure accounts are accurate.	Evidence of shortcuts would be reported internally but not externally. Discussions with audit firms centre on fees rather than quality. Want to get them out as quickly as possible.
4. Divisional finance manager	No	N/A	Not aware of QTB.	Depth of time does not go into analytical review by audit staff.	Could be over-reliance on what client prepares.	Not aware if doing 75% or 100% but could detect behaviours if made an effort by asking other auditee staff what auditors looked for.	Not relying on audit so no major consequences for auditee. If shortcuts became a pattern, the amount of analysis carried out by auditee staff for auditors could lessen. Important that auditors are there as a lot of auditee staff do not know what they are doing and good control from that point of view.	Would discuss it informally with audit manager if detected.

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APPENDIX 1 (*CONTINUED*)

No. and Title	Previous Experience as Auditor	Number of Years since Worked as an Auditor	Awareness of QTB	Accept Weak Auditee Explanations	Other Forms of QTB	Detection of QTB	Consequences of QTB	Reporting of QTB
5. Divisional financial accountant	No	N/A	There is nobody to say they couldn't get away with bogus ticks.	Maybe sometimes but can't think of anything where they should have hauled me up on that. Auditees get to know what kind of response will suffice.	Less reliance on client work now because of documentation requirements of Sarbox but could be over-reliance in the past.	Chances of finding it fairly remote and wouldn't see their detailed testing.	No real consequences as audit tests don't pick up anything. Could result in restatement of accounts if in significant area.	Would mention it internally if shortcut detected but not externally.
6. Divisional financial controller	Yes in Big 4 firm (not current auditors)	> 10 years	Would not be aware of it.	Auditors always come back and question again if they get a weak explanation.		Not possible to detect.	Could be consequences if something accumulates into bigger issue but depends on materiality. Main concern of auditee is to get through the audit. Auditors come back with more questions after review so must be good in picking up QTB.	Auditee would not report back to audit management as just want to get clean bill of health.
7. Group financial accountant	Yes in Big 4 firm (same firm as current auditors)	< 5 years	Aware of it and gave example of automatic tick when he worked in audit firm.	Can happen in analytical review when auditee is asked for explanations of changes.	Sample size based on judgement anyway so could adopt a discretionary approach and reduce sample size, could over-rely on internal evidence.	Going to hide it from auditee. Example of working papers he obtained where auditors had got it wrong.	Know that auditee systems are good so no consequences. Auditors generally come back for more evidence after audit review so this prevents any serious QTB. Not too concerned about it. Auditors can have a role to play in improving a specific area for the auditee.	Quite happy to let QTB go on and would not report it.

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APPENDIX 1 (*CONTINUED*)

No. and Title	Previous Experience as Auditor	Number of Years since Worked as an Auditor	Awareness of QTB	Accept Weak Auditee Explanations	Other Forms of QTB	Detection of QTB	Consequences of QTB	Reporting of QTB
8. Divisional financial controller	Yes in Big 4 firm (same firm as current auditors)	> 10 years	Awareness from previous experience as an auditor.	Happens when auditors don't understand auditee's business.	Biasing sample selection oldest trick in the book.	Easier for client to know what is going on if trained as an auditor.	Indifferent to whether they are doing it or not as good auditee controls. Serious consequences if poor auditee controls and collusion at middle-management level. Auditors will get criticism then but audit partner involvement means very unlikely this will happen. Auditees will realise that they can hide things from auditor. Weaker audit staff assigned to low-risk areas like pension funds. Audit review can probe weak areas in the audit as partner has good knowledge but sometimes poor in doing that.	Auditee would inform audit manager unless auditee influenced auditor into QTB!
9. Divisional Head of Finance	Yes in Big 4 firm (not current auditors)	< 5 years	It would happen.	Fairly bland response to auditor questions will generally suffice.	Not much sample testing done in particular business.	Haven't seen evidence of it.	There could be consequences but not sure of the scale of them as it comes down to materiality. Auditee is comfortable with numbers reported so not too worried about corner-cutting. Downgraded team assigned to less significant areas. Partner involvement reduces likelihood that anything significant missed. Audit review also picks up quality reductions.	Might raise an issue with audit management on quality of staff but not specific incidents of QTB.

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APPENDIX 1 (*CONTINUED*)

No. and Title	Previous Experience as Auditor	Number of Years since Worked as an Auditor	Awareness of QTB	Accept Weak Auditee Explanations	Other Forms of QTB	Detection of QTB	Consequences of QTB	Reporting of QTB
10. Group financial accountant	No	N/A	Know where the shortcuts are.	In general, auditee tries to provide backup documentation for explanations so not just relying on auditee.	May over-rely on client information without looking for backup.	If auditor asks for explanation and you know it has gone over their heads then they have cut corners. Auditees would not detect other behaviours.	Risk that the accounts are wrong but if auditee controls are strong then no consequences. Unlikely that they take shortcuts on anything material. Not here to give them lessons on how to do their job.	Weak audit staff would be mentioned to audit managers and an example given of when this had been done.
11. Divisional financial controller	Yes in non Big 4 firm (not current auditors)	> 10 years	Aware they could do that.	Auditee can give half-truth and wait and see if there is follow-up. Sometimes auditors are very accepting especially for analytical review.	It's possible they over-rely on client work.	Would only detect accepting weak client explanations but not others.	No consequences for this company as controls good. No consequences for auditors as not likely to be detected. Immaterial areas are irrelevant and auditee could hide immaterial amount and it would have no consequences.	Amazed if auditee reported back to audit management incidents of QTB. No way auditee would ever go back and tell them.
12. Group payroll manager	Yes in Big 4 firm (same firm as current auditors)	5–10 years	Could do it but wouldn't say they have.	Rarely accept first answer you throw at them.	Over-rely on client work sometimes.	Wouldn't be detected other than maybe where auditors requested documentation but didn't come back for it.	Accounts could be misstated.	This would be discussed internally by the auditee but not externally with the audit firm.

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APPENDIX 1 (*CONTINUED*)

No. and Title	Previous Experience as Auditor	Number of Years since Worked as an Auditor	Awareness of QTB	Accept Weak Auditee Explanations	Other Forms of QTB	Detection of QTB	Consequences of QTB	Reporting of QTB
13. Group accounts receivable manager	Yes in non Big 4 firm (not current auditors)	5–10 years	Could be evidence of that.	Audit staff may readily accept an explanation.	Might over-rely on client work.	Difficult to know based on level of interaction between auditee and audit staff.	No real consequences as would not occur in material areas. Makes life easier for auditee and auditor.	Would inform audit manager if poor-quality staff or level of interaction was excessive.
14. Divisional financial accountant	No	N/A	Aware it could happen.	Audit staff knowledge of auditee's business may not be good so they can easily accept a weak explanation.		Exposure to auditors reduced so difficult to detect. Can pick up where they accept weak explanations.	Consequences could be severe if it proved endemic of a wider malaise. Consequences depend on criticality of tests. Not auditees' role to improve quality of the audit. At the same time they do provide an important service.	Discussed internally in auditee company if not happy with audit staff but not externally.
15. Group Head of Financial Control	No	N/A	Could cut corners and probably do.	Have expected a more eager challenge to explanations from audit staff in the past. Less likely to accept woolly explanations now due to Enron.	Could over-rely on client work.	No evidence other than accepting weak explanation.	Auditors run the risk of being sued.	Would be discussed internally but not externally.

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APPENDIX 1 (*CONTINUED*)

No. and Title	Previous Experience as Auditor	Number of Years since Worked as an Auditor	Awareness of QTB	Accept Weak Auditee Explanations	Other Forms of QTB	Detection of QTB	Consequences of QTB	Reporting of QTB
16. Group Head of Internal Audit	No	N/A	Not aware of it, suspect they don't engage in it especially in material areas.	Have experienced audit junior staff accepting weak explanations.	Most client staff have no audit experience and not aware of sample sizes or any bias in samples.	Not possible for clients to detect except when things not followed up close to sign-off.	Dangerous game and in nobody's interest. If occurring in significant areas would result in another accounting scandal. Junior auditor would get 'kick in the behind' if caught doing this. Audit review picks up QTB but can be very aggressive and not give audit team time to reflect.	Would be discussed internally but not externally.
17. Group Head of Finance	No	N/A	Not aware of shortcuts.	Inexperienced staff would accept weak explanations but would come up again when file is reviewed by audit manager.		Would notice if they had biased sample or relied on auditee work.	If auditor takes shortcuts, things will jump up and bite at later stage. Auditee would change auditor if detected it. Risk that auditee staff would answer questions in a superficial manner if they thought auditor would accept them.	This would be reported internally by auditee staff.
18. Divisional financial accountant	No	N/A	Not aware of QTB.	Can happen occasionally.		Hard for auditee to detect.	Depends on materiality of area of shortcut and auditee controls. In 'well run' auditee, no major consequences for auditee or auditor. Audit review process likely to detect QTB as 'hands on'.	Whether reported depends on relationship between auditee and auditor. If good relationship would be reported. Auditee seeks feedback from all auditee staff on their impressions of auditors.

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CHARTERED ACCOUNTANTS IRELAND EDUCATIONAL TRUST

RESEARCH AGENDA

2016

ABOUT CHARTERED ACCOUNTANTS IRELAND EDUCATIONAL TRUST

The principal objectives of the Chartered Accountants Ireland Educational Trust are to further and develop the science of accountancy in all of its branches and to promote educational facilities for the teaching of the science and practice of accountancy, auditing, finance and other related subjects.

The Trustees interpret the science of accounting as including audit and assurance, reporting to stakeholders, management information, taxation policy and procedures, governance, risk management, business and professional ethics, and business regulation. It would not normally include the separate sciences of economics, management theory, and business studies.

The policy of the Trustees is to act as a catalyst for activities in the sphere of accountancy education and research and to provide financial assistance where such activities would not otherwise be feasible. If the resources available prove inadequate for these needs the Trust may act as a vehicle for additional public fundraising.

The Trust has identified broad research themes to stimulate applications for funding and they may come from the following areas:

- Audit and assurance
- Accounting history (the Trust encourages historical research only where it has relevance to the current-day science and practice of accountancy, auditing, taxation, finance and governance)
- Business ethics
- Business reporting
- Governance (both in businesses and in other organisational forms)
- Management accounting and financial management
- Methodologies of education and training
- Not-for-profit and public sector accounting, reporting and regulation (for example, state agencies, charities or credit unions)

In the past the Trust has funded projects such as:

- Implementation of accruals accounting in the Irish public sector
- XBRL development

- Delivery of accounting cases to large groups in an educational setting and
- *Accounting, Finance and Governance Review* – the Trust has, since the inception of the Irish Accounting and Finance Association (IAFA), supported the publication of its official academic journal (at present entitled the *Accounting, Finance and Governance Review*).

Examples of topics that might be of interest to the Trust include (but are not limited to):

- *A comparison of principles v rules approaches as a basis for financial reporting*
- *Changing needs, skill sets and techniques in the auditing profession*
- *Efficacy of differing methods of the teaching of accountancy (including the use of IT to support teaching and learning)*
- *Emerging reporting frameworks (for example, with respect to corporate social responsibility and sustainability)*
- *Changing regulatory structures in financial institutions in the wake of the financial crisis (for example in banks or credit unions)*
- *Impact of new public management (NPM) ideas on accounting, budgeting and performance measurement systems in the public sector*
- *Accounting, reporting and regulation requirements in the charity sector*
- *Influence of changed accounting requirements in pension schemes*
- *Effect of changed taxation policies on the economy*

FUNDING POLICY

1. The Trust welcomes applications from the academic research community both within and outside the island of Ireland. It is particularly interested in applications based on professional, business and/or international collaboration.
2. Grants cover the direct expenditure attributable to the project (**Note: College/university fees are not paid for, nor are projects funded that are part of a postgraduate programme**). Following any decision by the Trust to approve funding, claims for reimbursement should be supported by vouched expenses or other appropriate evidence.
3. The Trust is not limited to supporting academic research only but it is also available to those in practice or in any other form of activity that promotes the science of accounting and/or accountancy education.
4. It must be clearly acknowledged in each project that the Trust has supported it. The suggested form of wording to be used in such acknowledgement is:

This article/report/book is based on research carried out in collaboration with xxxx from xxxx and with financial support from the Chartered Accountants Ireland Educational Trust.

5. Copies of the research outputs must be made available to the Trust and the Trust reserves the right to publish such outputs on its website or in its journal or any other Chartered Accountants Ireland publication. There is a requirement that among the research outputs from a funded project there should be one submission to the official academic journal of the IAFA, at present entitled the *Accounting, Finance and Governance Review* (this is a journal funded by the Trust), and a shorter, professionally-focused paper submitted to *Accountancy Ireland*.
6. Projects which are unduly delayed may be reassessed by the Trustees. Grant recipients are required to provide written progress updates to the Trustees at least twice per annum (March and August).

REQUESTS FOR FUNDING

Each request for funding must include the following:

1. Research proposal to include the following:
   a. a summary of the project
   b. prior research that has been carried out by the applicant(s) or others in relation to the topic
   c. timeline for the project
   d. problem/hypothesis or question
   e. research methodology
   f. potential contribution to the science of accounting
   g. intended outputs
2. Completion of the attached application form.
3. Curriculum vitae(s) of the applicant(s).

Completed application should be sent to:

The Administrator,
Chartered Accountants Ireland Educational Trust,
Chartered Accountants House,
47—49 Pearse Street,
Dublin 2.

Telephone: +353 (1) 637 7200

www.charteredaccountants.ie/caiet

NOTES FOR CONTRIBUTORS

1. Papers should be submitted electronically. Papers should not normally exceed 8,000 words.
2. There should be a separate file containing the title, author(s), affiliation(s) and one address to which correspondence regarding the paper (including proofs) should be sent. An abstract of not more than 100 words should be given at the beginning of the paper.
3. Citations in the text should be by author's name and year of publication, for example, Black (1972) or (Brown, 1972). In the case of citations of books or specific quotations, page numbers should be given, for example (White, 1992, pp. 10–11). Where more than one publication by the same author in a given year is cited, they should be distinguished by lowercase letters after the year, for example (Green, 1987a; Green, 1987b). Where there are more than two authors, all names should be given in the first citation with 'et al.' used subsequently.
4. References should be listed alphabetically at the end of the manuscript in the following style:

DeAngelo, L.E. (1981). Auditor Size and Audit Quality, *Journal of Accounting and Economics*, Vol. 3, No. 3, pp. 183–199.

European Commission (1996). *Green Paper on the Role, the Position and the Liability of the Statutory Auditor Within the European Union*, October, Brussels: European Commission.

Faulkner, R.R. (1982). Improvising on a Triad, in *Varieties of Qualitative Research*, Vol. 5, Van Maanen, J., Dabbs, J.M. and Faulkner, R.R. (eds.), pp. 65–101, Beverly Hills, CA: Sage Publications.

Fielding, N.G. and Fielding, J.L. (1986). *Linking Data: Qualitative Research Methods*, Beverly Hills, CA: Sage Publications.

Only works referred to in the text should be listed, and a general bibliography should not be included.

1. Essential notes should be included as endnotes rather than footnotes.
2. In initial submissions, tables and diagrams may be either included at the appropriate point in the text or after the references with their positions indicated in the text. Do not submit any separate Excel documents. Any exceptional costs of artwork for diagrams will be charged to authors.

3. Mathematics should be used only if they contribute to clarity or economy of presentation. The conclusions of mathematical papers or elements of papers should be made intelligible to readers who are not mathematicians.
4. Papers should not be submitted while under consideration by any other journal.
5. Papers are accepted for publication on the understanding that they are subject to editorial revision and have not previously been published.
6. In the preparation of papers, authors must observe copyright rules and practices.
7. Authors should correct proofs quickly and should not make revisions to proofs.
8. Authors submitting a paper do so on the understanding that, if it is accepted for publication, copyright of the paper is assigned to the publisher. The Irish Accounting and Finance Association, as publisher, will not impose restrictions on the author(s) regarding the use of material from the paper in other published works.